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

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Abstract

We study dynamic international agreements 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. Conflicts of interest between governments may be softened or intensified by the governments' conflicts of interest with voters. We characterize when the threat of electoral turnover strengthens the prospect for successful negotiations, when it may cause negotiations to fail, and how it affects the division of the surplus from cooperation. We also show how changes in domestic politics—including uncertainty about the preferences of domestic political parties—affect the domestic government's ability to extract greater concessions from the foreign government.

Keywords: Negotiations, Commitment, Strategic Delegation, Elections.

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"I decided rather than terminating NAFTA... we will renegotiate. Now, if I'm unable to make a fair deal, if I'm unable to make a fair deal for the United States, meaning a fair deal for our workers and our companies, I will terminate NAFTA. But we're going to give renegotiation a good, strong shot."

President Trump, April 27 2017

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.

In fact, newly-elected governments often try to renegotiate a predecessor's agreement. A Conservative government took the United Kingdom *into* the European Economic Community (EEC) in 1973. That same year the Labour Party declared that it "*opposes* British membership [in the EEC] on the terms negotiated by the Conservative Government", and its 1974 election manifesto promised to "seek a fundamental re-negotiation".[1] Upon entering government in 1974, Labour re-opened negotiations, obtaining concessions in exchange for the UK's continued participation. After the 2015 General Election, a Conservative government initiated the renegotiation that culminated in a vote for the UK to exit the European Union ("*Brexit*"). In May 2017, the Trump administration notified Congress that it plans to renegotiate the North American Free Trade Agreement (NAFTA). And, in June 2017, Donald Trump withdrew the United States from the Paris Climate accord, with the prime intent to renegotiate better terms, asserting,

> "In order to fulfill my solemn duty to protect America and its citizens, the United States will withdraw from the Paris climate accord but begin negotiations to reenter either the Paris accord or an entirely new transaction on terms that are fair to the United States."

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

[1] 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.

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.

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.[2] This was manifest in the unilateral decision by the Bush Administration to withdraw from the Kyoto Protocol in 2001, and in 2017 when the Trump Administration threatened to "terminate" NAFTA absent a renegotiation that would deliver a "fair deal" for the United States.[3] Indeed, 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.[4] The revised British contribution remained in place until 2005.[5]

Our paper asks: how do pending national elections determine (a) the prospects for initial cooperation between states, and (b) the division of the surplus from an agreement? 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 walk away from the agreement?

Our Approach. At each of two dates, a *domestic* government negotiates an agreement with a *foreign* government. The agreement specifies whether a binary policy project is undertaken and

[2] The Treaty of Lisbon introduced an explicit procedure for a member country of the EU to exit.

[3] see `https://goo.gl/UlBqBM`.

[4] See *Future Financing of the European Union*, (6th Report session 2004-05, HL Paper 62, page 21, Q68).

[5] 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 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. We thank Laurent Bouton for proposing this application of our framework.

the extent of transfers to be made between governments in return for implementing the project. The transfers could include budget contributions, rebates or regulatory carve-outs. Agents hold commonly-known initial project valuations. The domestic incumbent is either intrinsically relatively *friendly* or *hostile* to the project, but we assume that neither domestic party initially wants to implement the project without some concessions from the foreign government.

After the initial negotiations conclude, a national election determines whether the incumbent is retained, or replaced by the other party. We first assume that the uncertainty over who will hold power at date two is unaffected by date-one outcomes. We then assume that voters cast their ballots for whichever party is best for them given the agreement that was initially negotiated. Following elections, domestic agents receive a stochastic and publicly-observed shock to their preferences over the project. For example, civil unrest may raise the domestic political cost of the project regardless of which political party holds power.

At date two, the transfer negotiated before the election serves as the transfer that would be made *if* the new domestic government again implements the project. However, either the foreign or domestic government may renegotiate the existing terms by proposing a new transfer. If accepted by the other government, the proposed transfer replaces the standing offer; 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 the prospect for initial agreements, and the division of the surplus varies 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, and (d) how agents discount future outcomes.

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 pursue the project. But, suppose that agents care about 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, (a) the smaller is date-two surplus, but (b) the greater is the set of circumstances in which it would be willing to walk away from the existing agreement absent renegotiation. This fundamental tension bears on all of our results.

When the election outcome is unaffected by initial negotiations, we prove that the two governments reach an agreement if and only if the immediate (date-one) total surplus from the project is positive. That is: static and dynamic conditions for an agreement coincide. Moreover, agreements always feature the smallest transfer that induces the date-one domestic government to implement the 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.

Matters are very different when domestic voters select their date-two domestic representative taking into account initial negotiation outcomes. 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 date-one outcomes. Greater initial concessions by the foreign government mitigate desires of domestic voters to appoint a radical date-two government in order to extract even more. Instead, voters favor electing a government that is more likely to maintain the project. But if voters believe that the foreign government would be willing to offer far more concessions than are on the table, they prefer a more hostile government—regardless of their primitive preferences over the project, voters share a *common* desire to extract as much surplus as possible from the foreign government. Thus, initial negotiations are both affected by, and partly determine, electoral outcomes and subsequent negotiation outcomes.

Main Results. Our main findings are as follows. If the domestic government is initially relatively friendly, initial agreements are signed whenever the static surplus between the foreign and friendly government is positive; and, when the static surplus is instead negative, agreements are signed if and only if *elections are not too far off*. The reason is that the governments' static conflicts of interest are attenuated by a dynamic confluence of interests that is heightened by proximity to an election: *both* governments value more generous standing agreements that encourage voters to return the friendly party to office. This common interest may lead to even more generous offers by the foreign government than are needed to secure the friendly government's participation. Thus, national elections not only raise the prospect of agreements, but re-direct surplus away from the foreign government and toward the domestic government.

If, instead, the domestic government is initially relatively hostile, agreements are never signed when the static surplus is negative; and, when the static surplus is positive, agreements are signed if and only if *elections are not too close*. The reason is that the governments' static conflicts of interest are exacerbated by a dynamic conflict of interests that is heightened by proximity to an election: more generous transfers harm the relatively hostile incumbent by reducing the prospect that it retains power, since voters then favor a friendly future government that will preserve the agreement. Finally, whenever an agreement is signed, the foreign government appropriates all of the surplus from agreement.

More generally, dynamic considerations have a polarizing effect on initial negotiations: static conflicts between the national and foreign government are magnified by other conflicts, including (1) policy and rent-seeking conflicts between the domestic political parties, (2) policy conflicts between the parties and the electorate, and (3) the policy conflict between the foreign government and the electorate. We show how changes in the project valuations of the domestic parties may drive more or less generous agreements, depending on the uncertainty about domestic voters' attitudes towards the project. Finally, we examine the robustness of our results when voters can choose from a larger set of political parties, or when voters cast ballots based on retrospective rather than prospective considerations, or when parties can make limited commitments to their negotiation strategies conditional on winning office.

Our model offers novel insights into how domestic politics affect international negotiations. First, democratic governments should be most successful in extracting concessions from negotiating partners when elections are imminent. This finding is consistent with evidence 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 election. Second, hawkish governments that are the most ideologically opposed to international agreements have electoral incentives to secure *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.

Contribution. The two crucial features of our framework are that (1) agreements are negotiated *both* before *and* after a domestic election and (2) the outcome of preelection negotiations determines the standing offer in any subsequent negotiation.

Our focus on elections and renegotiation departs from the 'two-level games' framework developed by Putnam (1988) and explored in a vast body of work that includes Iida (1993), Mo (1995), Milner and Rosendorff (1997) and Tarar (2001). The premise of this framework is that an agreement negotiated between a domestic and foreign government requires further domestic (i.e., legislative) ratification; however, these models do not allow for renegotiation once an initial bargain is struck. While important, this framework has its limitations. *First*, many countries do not have ratification requirements.[6] *Second*, executives often find ways to evade them— for example, via executive agreements and non-binding commitments in the United States that are not subject to congressional approval.[7] *Third*, regardless of ratification requirements, the possibility for future renegotiation remains relevant. Our results highlight how electoral concerns (both via policy and office motivations) drive negotiation outcomes—considerations missed by models that focus solely on ratification.[8]

Electoral considerations may generate starkly different implications for negotiation outcomes than those arising when the only relevant consideration is ratification. To illustrate this, consider a country that has a ratification requirement, and suppose that the relatively hostile domestic party holds ratification authority, but the friendly party conducts initial negotiations with the foreign government. This could arise with a divided government in which the friendly party holds executive authority, but the hostile party controls the legislative upper chamber. If the relatively more hostile party's preferences regarding international cooperation grow even more hostile—e.g., its party leadership becomes more opposed to free trade or international environmental cooperation—does this benefit or impair the relatively friendly party's ability to extract concessions from the foreign government in its initial negotiations?

The enduring prediction of the two-level games literature is that this change in domestic politics *raises* the friendly party's transfers from the foreign government. The reason is that the hostile party's increased intrinsic hostility makes it more prone to refuse ratification. This encourages the foreign government to make more generous concessions to the friendly domestic government, in order to sway the more hostile ratifier (Schelling, 1980).

In our setting, by contrast, the friendly domestic government and foreign government anticipate the incumbent's threat of replacement by the relatively hostile party in an election. If the hostile party is elected, the foreign government further anticipates a higher risk that any agreement signed today may be renegotiated on less favorable terms to the foreign government. More generous initial transfers (1) steer voters' induced preferences in favor of the friendly

[6] For example, in the UK, the House of Commons may delay ratification of certain treaties, but there is no mechanism for Parliament to scrutinize, debate or vote on treaties; see Lang (2017).

[7] For example, the Joint Comprehensive Plan of Action; see Mulligan (2017) for an introduction to the forms of international agreements and commitments in the US context.

[8] The distinction between elections and ratification *matters*: a ratifier chooses between accepting an international agreement and preserving the status quo; 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.

government and (2) insure the foreign government against renegotiation by either subsequent domestic government, since more generous standing offers lower the prospect that a future domestic government will prefer to quit at the standing offer.

We derive the necessary and sufficient conditions under which a more hostile opposition party *lowers* the foreign government's transfers to the friendly party. To see why transfers may fall, notice that as the hostile party grows more extreme, it becomes less electorally competitive, since more voters prefer the anticipated negotiating position of the relatively friendly party.[9] This has two implications. First, the foreign government faces less urgency from using more generous transfers to steer voters' induced preferences in favor of reelecting the friendly party. Second, at any level of transfers—and thus at any future standing offer—the friendly government is more likely to be reelected, in which case the post-election domestic government is more likely to want to maintain any existing agreement; this reduces the foreign government's desire to insure itself against future renegotiation. Both of these forces encourage the foreign government to make *less* generous concessions. Thus, the key prediction of the ratification literature—commonly referred to as the *Schelling Conjecture* (Milner, 1997)—is entirely reversed in a context where electoral considerations are paramount.

Static models of inter-governmental negotiations generate predictions about the induced preferences of voters over their representative (e.g., government or legislator) in subsequent negotiations, including Persson, Tabellini et al. (1992), Besley and Coate (2003), Buchholz, Haupt, and Peters (2005) and Harstad (2008). In our framework, however, negotiations take place both *before* and *after* elections (i.e., delegation decisions); and both governments' negotiating strategies account for the consequences of today's agreement for subsequent election outcomes, generating strategic considerations that are absent in these static models.

There is a small literature on dynamic negotiations with interim elections. Wolford (2012) assumes that a domestic government is more likely to win reelection when the share of the surplus it extracts from a foreign government in pre-election negotiations rises. We show that when pre-election negotiations determine the standing offer in subsequent negotiations, and thus voters' induced preferences, a relatively hostile incumbent suffers a *lower* prospect of re-election when it secures greater surplus. In Schultz (2005), an incumbent's decision to 'cooperate' or 'defect' informs domestic voters about his preferences, informing retention decisions. However, there is no inter-governmental bargaining, and thus no mechanism to distribute any joint gains from cooperation (e.g., transfers). In contrast, our focus is precisely on how changes

[9] The intuition is analogous to a Calvert-Wittman framework in which two parties offer differentiated platforms, and one party moves its platform further away from the other's.

in preferences and uncertainty affect the distribution of surplus from cooperation across governments.[10] Battaglini and Harstad (2016) show how an incumbent party might commit to inefficiently low sanctions (a "weak treaty") to differentiate itself electorally from a challenger.

Smith and Hayes (1997) also study a setting in which countries may renegotiate an inherited pre-election agreement. In their model, governments bargain over spatial policies, rather than transfers as in our setting. They characterize renegotiation outcomes after an election for a *given* inherited status quo, and highlight some properties that the status quo must satisfy if it is derived from pre-election negotiations. However, in contrast to our analysis, they do not characterize pre-election agreements, conditions on primitives under which pre-election agreements are reached, or how the surplus from agreement is divided across governments.

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 (Gartzke and Gleditsch (2004)) or reduces (Leeds, Mattes, and Vogel (2009), Gaubatz (1996), Leeds and Savun (2007)) a government's propensity to renegotiate or exit agreements. Others hold intermediate views, 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)). The empirical frequency and causes of treaty renegotiation has been subject to debate (e.g., Downs, Rocke, and Barsoom (1996)). We provide insights into how and when durable treaties are signed, and how this depends on the preferences of negotiating governments, and the domestic political context.

The idea that today's policies commit future governments—and that such commitments can be used to manipulate electoral preferences—is well established, for example in Alesina and Tabellini (1990), Milesi-Ferretti and Spolaore (1994) and Persson and Svensson (1989). In our setting, however, the degree of commitment itself is *entirely* endogenous. In particular, initial negotiation outcomes change neither the technology available to future governments, nor their primitive valuation from post-election participation in the project. Finally, we contribute to a literature on dynamic political economy in which today's policy outcome serves as the reversion in subsequent negotiations (Dziuda and Loeper (2016), Acemoglu, Egorov, and Sonin (2014)).

The outline of this paper is as follows. We present our base model, analyzing 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. We then consider en-

[10] In Schneider and Slantchev (2018), governments are privately informed about the gains to cooperation, and the division of any surplus from an agreement is exogenous.

dogenous elections, showing how the answers to our motivating questions change radically. We show how offers vary with primitives such as the intrinsic valuations that the domestic parties place on the project, as well as uncertainty about voters' preferences. We then summarize extensions that are fully analyzed in a Supplemental Appendix. A conclusion follows. Proofs are in the Appendix.

Model

Our two-date economy features two countries, a *foreign* government (FG) and a date-t *domestic* government (DG_t). FG can be interpreted either as an individual government or a group of governments such as the European Union, or an international organization such as the International Monetary Fund. There is a project that the governments can undertake at each of 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, the launch of a common currency, a climate agreement, or a region's participation in a federation or national union.

At both dates, the project generates a value v_F for FG. The value of the project to DG_t depends on the identity of the political party that holds power. We consider a two-party setting that features a relatively *friendly* party with date-1 valuation $\overline{v}$, and a relatively *hostile* party with date-1 valuation $\underline{v}$. These project valuations can be interpreted as flow payoffs enjoyed at each date from the moment that the agreement is signed. If the project is not undertaken at date t, each agent receives a date-t payoff that we normalize to zero. All project valuations are common knowledge. Assumption 1 sets out the structure that the foreign government derives a higher value from the project than the relatively friendly government, which, in turn, derives a higher value from the project than the relatively hostile party.

Assumption 1: $v_F > \overline{v} > \underline{v}$.

All agents weight date-1 payoffs by $1 - \delta \in (0, 1)$ and date-2 payoffs by δ. For example, $1 - \delta$ could represent the time between the initial signing and the next election: when δ is large, negotiations take place relatively close to the election, after which there will be an opportunity to renegotiate the initial agreement.

At the outset of negotiations, participation by DG_1 in the project with FG implies a transfer $s_1 \in \mathbb{R}$ from FG to DG_1. In the EU accession example, $s_1 \geq 0$ could represent a standard package of benefits, such as tariff reductions or a share of regional development funds that is awarded to a new member state upon joining. By contrast, $s_1 < 0$ could reflect formula-based budgetary contributions made by the domestic government in exchange for its participation in the project. Alternatively, it could reflect monetary or fiscal convergence criteria that DG_1 must satisfy in order to accede, such as the Stability and Growth Pact. The precise value of s_1—and whether it is positive or negative—does not play a role in our results. We focus on the most interesting setting, in which neither the relatively friendly nor relatively hostile party derives a positive date-1 value from entering into an agreement on these terms, but the FG derives a strictly positive date-1 value from the project taking place at the initial terms:

Assumption 2: $\overline{v} + s_1 < 0$, $v_F - s_1 > 0$.

We allow for negotiations between the countries in which FG encourages DG_t to participate by offering more favorable terms. These negotiations unfold as follows. At date 1, FG is the *proposer*, and DG_1 is the *receiver*.[11] FG makes an initial offer $b_1 \geq s_1$, which is a concession that it will give to DG_1 *if and only if* it participates in the agreement at that date.[12] In the EU accession example, b_1 could represent additional 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_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_1 may be replaced by a new domestic government DG_2, according to a process that we describe below. After DG_2 is realized, all domestic agents are hit by a common additive preference shock λ 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 be civil unrest. Alternatively, new information may come to light. For example, in 2004, an audit by the incoming Greek government found that, under a previous PASOK administration, 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 date-1 negotiations do not affect domestic election outcomes. Thus, DG_2 is relatively hostile with exogenous probability $\Pr(\underline{v}) \in [0, 1]$, and relatively friendly with probability $\Pr(\overline{v}) = 1 - \Pr(\underline{v})$. This captures a benchmark in which the election outcome is insensitive to the negotiation outcome. We later endogenize DG_2's project valuation via an

[11] In the Appendix, we show that our results extend when DG_1 is instead the proposer.

[12] Throughout, we restrict FG to proposing weakly more generous terms than s_1. This restriction is without loss of generality under many mild restrictions, for example that $s_1 + \sigma + \underline{v}$ is not too large and the likelihood that the median domestic voter places a very high value on the project is not too high.

election, where electoral outcomes may depend on: (1) whether the project was implemented at date 1, and the terms of the initial bargain; (2) how voters make voting decisions (prospectively or retrospectively); and (3) the set of feasible replacements. We assume that there is sufficient variation in the domestic preference shock λ:

Assumption 3: $v_F + \overline{v} < \sigma$, $\underline{v} + s_1 > -\sigma$.

Assumption 3 says that there is enough uncertainty about the common domestic preference shock λ that (a) it could exceed the expected surplus from the project between FG and the relatively project-friendly DG_2 with valuation $\overline{v}$; and (b) it could be even lower than the expected value for the relatively hostile DG_2 with valuation $\underline{v}$ from participating in the project at the initial standing offer, s_1.

After λ 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. The inherited date-1 terms serve as the reversion point s_2 for date-2 bargaining. Thus, if the project was implemented at date 1 with transfer b_1, the status-quo transfer is $s_2 = b_1$; this transfer 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 (i.e., starting point for date-2 negotiations in which the governments try again) is $s_2 = s_1$.

With probability $\theta \in [0, 1]$, DG_2 proposes the new terms, and with probability $1 - \theta$ the FG makes the proposal. The parameter θ could reflect intrinsic bargaining power or institutional features of the agreement that determine who can initiate renegotiations. We allow for arbitrary $\theta \in [0, 1]$ to emphasize that results do not depend sensitively on the distribution of future bargaining power.[13] The agent realized as proposer at date 2 can propose a new transfer, $b_2 \in \mathbb{R}$. If the date-2 receiver accepts, this becomes the new date-2 transfer. Otherwise, the inherited terms from past negotiations remain in force, so that $b_2 = s_2$. Next, DG_2 decides whether to quit the agreement and receive its outside option of zero or to execute the agreement given the date-two terms. FG then makes the agreed-upon transfer if and only if DG_2 executes the agreement by implementing the project.

[13] While θ does not play a key role, scholars have still considered how features of international institutions—e.g., re-negotiation protocols—might be chosen to maximize the prospect that an agreement survives. See Koremenos, Lipson, and Snidal (2001) or Koremenos (2001).

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

$$(1-\delta)r_1(v+b_1)+\delta \sum_{v' \in \{\underline{v},\overline{v}\}} \Pr(v') \int_{-\sigma}^{\sigma} r_2(v+b_2+\lambda)f(\lambda)\,d\lambda,$$

where $f(\lambda)$ is the density of the domestic preference shock, λ. 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 $r_2 \in \{0,1\}$ denotes the project outcome at date 2; and b_2 denotes the date-two 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. In addition to deriving project-related payoffs like any other domestic agent, we assume that each domestic political party derives an office-holding benefit of $w > 0$ at any date that it holds office.

The analogous expected payoff of FG with project valuation v_F is:

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

One may observe that FG's project valuation does not evolve over time. This assumption eases presentation and analysis, allowing us to focus on the effects of uncertainty about DG_2's valuation v_D^2. One can also interpret the foreign government as the IMF or the World Bank, whose leadership is not expected to change over the course of negotiations.

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 s_2 is the transfer b_1 that DG_1 accepted. If the project was not implemented, i.e., if $r_1 = 0$, then the status quo transfer that serves as the starting point for date-2 negotiations is $s_2 = s_1$.

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

$$v_D^2 + \lambda + v_F \geq 0 \iff \lambda \geq -(v_D^2 + v_F). \tag{1}$$

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 λ.

Suppose, first, that DG_2 has a high enough project valuation $v_D^2 + \lambda$ that it would receive a *positive* payoff from implementing the project when it receives the status-quo transfer s_2:

$$v_D^2 + \lambda + s_2 \geq 0 \iff \lambda \geq -(v_D^2 + s_2). \tag{2}$$

With probability θ, DG_2 is recognized to propose a modification to the inherited terms, s_2. Because DG_2 prefers higher transfers, it never proposes a transfer $b_2 < s_2$. Further, a proposal that raises the transfer to $b_2 > s_2$ will fail: if (2) holds, FG recognizes that DG_2 will implement the project even if the initial agreement is not amended. As a result, FG would reject the amendment, because a threat by DG_2 to renege on the inherited agreement is not credible. With residual probability $1-\theta$, FG gets to propose a modification. Although FG would like to negotiate a reduced transfer, DG_2 will refuse such amendments—it prefers to maintain the existing terms, which offer more favorable concessions in return for implementing the project.

Suppose, instead, that DG_2 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 θ, DG_2 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, DG_2 can re-negotiate the date-2 transfer from s_2 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 DG_2 can obtain when its threat to break the existing agreement is credible, i.e., at the threshold on λ defined in (2). With probability $1-\theta$, FG is, instead, recognized. Since (2) fails, FG must offer DG_2 a larger transfer to secure its participation. It then raises the transfer from s_2 to $b_2 = -(v_D^2 + \lambda)$, leaving DG_2 with value $v_D^2 + \lambda$ indifferent between implementing the project and quitting, allowing FG to claim the rest 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.

The expected date-2 payoff of a domestic agent with date-1 project valuation v who anticipates that the DG_2 will have project valuation v_D^2 and face status quo transfer s_2 is thus:

$$V_D(v, v_D^2, s_2) = \int_{-(v_D^2+s_2)}^{\sigma} (v + s_2 + \lambda) f(\lambda)\, d\lambda + \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda)\, d\lambda. \tag{3}$$

The expected date-2 project payoff of FG given s_2 when it faces DG$_2$ with valuation v_D^2 is:

$$V_F(v_D^2, s_2) = \int_{-(v_D^2+s_2)}^{\sigma} (v_F - s_2) f(\lambda)\, d\lambda + \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (1-\theta)(v_D^2 + \lambda + v_F) f(\lambda)\, d\lambda. \tag{4}$$

A transfer of power from a friendly date-1 domestic government DG$_1$ to a more hostile date-2 domestic government DG$_2$ (i.e., from $\overline{v}$ to $\underline{v}$) carries two implications. First, it increases the prospect that DG$_2$ 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 DG$_2$ will fail to reach an agreement with FG in contexts where a more project-friendly DG$_2$ would have successfully concluded the negotiation.

Discussion: The bargaining protocol is starker 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, $\theta \in [0, 1]$. When the domestic government holds date-2 proposal power, a more hostile representative can renegotiate the status quo transfer from s_2 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—it also mitigates against the downside of subsequent appropriation.

Policy Outcomes at Date One

Exogenous Power Transitions. In our benchmark setting, the date-2 domestic government's (DG$_2$'s) valuation does not hinge on the date-1 policy outcome. At date 1, the foreign government FG makes a proposal to the domestic government DG$_1$, which is either relatively *friendly* ($v_D^1 = \overline{v}$), or relatively *hostile* ($v_D^1 = \underline{v}$). DG$_1$ accepts the offer, i.e., $r_1(b_1) = 1$, if and only if:

$$\begin{aligned} &(1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + V_D(v_D^1, v_D^2, b_1) \Big] \\ \geq\ &(1-\delta)0 \qquad\quad + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + V_D(v_D^1, v_D^2, s_1) \Big], \end{aligned} \tag{5}$$

where we recall that $w > 0$ is the office rent that is enjoyed if and only if the incumbent is reelected, i.e., $v_D^2 = v_D^1$. Thus, the foreign government's date-1 proposal solves:

$$\max_{b_1 \geq s_1} \ (1-\delta) r_1(b_1)(v_F - b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, r_1(b_1) b_1 + (1 - r_1(b_1)) s_1),$$

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 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. In particular, the *static and dynamic conditions for a date-1 agreement coincide*. Thus, Proposition 1 states that a date-1 agreement is signed if and only if such an agreement is efficient from the perspective of the date-1 negotiating parties.

To understand the result, let $\Delta(v_D^1, v_D^2)$ be the ex-ante expected date-2 surplus from the perspective of the date-1 bargaining parties, when the date-1 domestic government DG_1 has project valuation v_D^1 and they anticipate that DG_2 has valuation v_D^2:

$$\Delta(v_D^1, v_D^2) = \mathbf{1}[v_D^2 = v_D^1] w + \int_{-(v_D^2 + v_F)}^{\sigma} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda. \tag{6}$$

Crucially, this surplus does *not* depend on the date-2 standing offer, s_2. In particular, the total date-2 surplus arising from an agreement is the same as the surplus in the event of disagreement. Thus, the total surplus from a date-1 agreement versus no agreement is unrelated to its terms:

$$\begin{aligned}
&(1-\delta)(v_D^1 + v_F) + \delta \Pr(\underline{v}) \Delta(v_D^1, \underline{v}) + \delta \Pr(\overline{v}) \Delta(v_D^1, \overline{v}) \\
-&(1-\delta)(0 \ + \ 0) \ - \delta \Pr(\underline{v}) \Delta(v_D^1, \underline{v}) - \delta \Pr(\overline{v}) \Delta(v_D^1, \overline{v}) \\
=&(1-\delta)(v_D^1 + v_F).
\end{aligned} \tag{7}$$

Because there is a constant surplus at *each* date, the surplus *across* dates is also constant, and its division represents a pure conflict of interest between the date-1 negotiating parties. 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, the constant total expected surplus implies that this gain *must* come 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. Note, however, that the transfer from FG to DG_1 does *not* solve the static participation constraint that $v_D^1 + b_1 \geq 0$, but rather the dynamic participation constraint given by (5).[14]

For simplicity, we assume that the foreign government FG makes the offer at date 1. If, instead, the domestic government, DG_1, makes the initial offer, the conditions for agreement in Proposition 1 still apply, but now the domestic government 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.

To facilitate a clear and tractable benchmark, we assume that the sole dynamic linkage across periods is that date-1 agreements determine the date-2 standing offer, s_2. In practice, date-1 agreements affect the total surplus through other channels. For example, the possibility of participating in the project at date 2 might depend on whether an agreement was formed at date 1. In a Supplemental Appendix, we consider this and related contexts, showing that while the conditions for an agreement to be signed may depart from our benchmark condition, all surplus is nonetheless extracted by the foreign government whenever an agreement is reached.[15]

Endogenous Power Transitions. We now consider an electoral contest between dates 1 and 2 in which domestic voters, who differ in their project valuations $v \in \mathbb{R}$, observe the date-1 negotiation outcome and then cast ballots in favor of their most-preferred date-2 government.

[14] It is routine to show that—whenever the static surplus between FG and hostile DG_1 is positive, the hostile DG_1 extracts a larger transfer than would a friendly DG_1. We establish this in the Supplemental Appendix.

[15] We consider variations on our benchmark setting in which (a) each country faces start-up costs from pursuing the project in the first period an agreement is signed, and (b) the distribution of the date-2 preference shock in the domestic country depends on whether an agreement is signed at date 1. We thank an anonymous referee, who encouraged us to explore the robustness of our benchmark result.

Imminent elections have a polarizing effect on date-1 negotiations between FG and DG_1. In the benchmark setting, initial negotiations are driven by the conflict of interest between the date-1 negotiating partners over the surplus division. When elections respond to initial agreements, two other conflicts are critical: the policy and rent-seeking conflict between the domestic incumbent and its possible successors, and *both* domestic *and* foreign governments' conflict with the domestic electorate. As a result, initial agreements no longer solely serve to *divide* the surplus: depending on whether DG_1 is relatively friendly or hostile, initial agreements may themselves change both the division and the *size* of the surplus from agreement.

Given status quo agreement s_2, a voter with valuation v prefers a date-2 domestic government that, from her perspective, induces the best date-2 negotiation outcome, i.e., that solves

$$\max_{v_D^2} V_D(v, v_D^2, s_2),$$

where $s_2 = b_1$ if the project was implemented at date 1 with transfer b_1, and $s_2 = s_1$ if it was not implemented at date 1. The uniform distribution over the preference shock λ yields:

Lemma 1. *Given an inherited status quo agreement s_2, a domestic voter with project valuation v prefers to elect the hostile government if and only if:*

$$v \leq \frac{\underline{v} + \overline{v}}{2} + (v_F - s_2) \equiv \hat{v}(s_2). \tag{8}$$

A domestic voter's induced preference for the friendly or hostile party depends on (1) her desire that a party reach an agreement with the foreign government in the same circumstances where she would value the project, and (2) her desire to extract more generous transfers from the foreign government in exchange for implementing the project. The first aspiration depends on the voter's valuation, but the second applies to all voters *regardless of ideology*, since all voters share a common value in extracting greater surplus from the foreign government.

A domestic voter is more intrinsically aligned with the friendly party whenever $v > \frac{\underline{v}+\overline{v}}{2}$: the friendly party is relatively more likely to reach agreements with the foreign government in circumstances where the voter would prefer an agreement to no agreement. Yet, Lemma 1 reveals that this domestic voter may nonetheless strictly prefer to vote for the hostile party!

To understand why, suppose that $\theta = 1$, so that DG_2 always has proposal power in any renegotiation.[16] A voter anticipates a positive prospect that either a friendly or a hostile DG_2 will renegotiate the standing offer s_2—indeed, with uniform preference shocks, each party is

[16] We thank Mark Fey for conveying this intuition for our result in an extremely insightful discussion.

equally likely to renegotiate the standing offer in equilibrium. However, voters also anticipate that each party renegotiates with FG in different circumstances, with the hostile party renegotiating when voters attach a higher valuation to the project than when the friendly party is renegotiating.

First, if $\lambda \in [-(\overline{v}+s_2), -(\underline{v}+s_2)]$, a friendly DG_2 maintains the standing offer s_2, but a hostile DG_2 renegotiates the offer from s_2 to v_F. Nonetheless, *both* domestic governments ultimately pursue the project. In this context, a voter with valuation $v+\lambda$ derives a positive payoff difference from the hostile DG_2 versus the friendly DG_2 of

$$v + v_F + \lambda - (v + s_2 + \lambda) = v_F - s_2 > 0. \tag{9}$$

The voter's date-2 project valuation ($v+\lambda$) does not affect her relative value because both governments would pursue the project; regardless of her valuation, she perceives that the hostile party is superior, because it pursues the project *and* extracts a higher surplus in the same context that the friendly party would pursue the project at the standing offer.

Second, if $\lambda \in [-(\overline{v}+v_F), -(\underline{v}+v_F)]$, a friendly DG_2 renegotiates the offer to v_F from s_2 to v_F, but a hostile DG_2 instead walks away from the project. A voter with project valuation $v+\lambda$ derives a payoff difference from the friendly DG_2 versus the hostile DG_2 of:

$$v_F + (v + \lambda) - 0. \tag{10}$$

Like the hostile DG_2 in the first case, a friendly DG_2 in the second case appropriates FG's value from the project, v_F. However, *unlike* the first case, this transfer is partially offset by the fact that a friendly government pursues the project in circumstances where a hostile government—and, possibly, the voter—wants to abandon it. When $v+\lambda<0$, the friendly government's continuation of the project generates a loss that is only partially offset by the transfer, v_F. So, for example, voter $v = \frac{\underline{v}+\overline{v}}{2}$'s expectation of the payoff difference (10) at the time of the domestic election is *zero*.[17] Since the payoff gain (9) is strictly positive, a voter whose project valuation is equidistant from the two parties strictly prefers to support the hostile party.

Note that a voter's induced preferences over date-2 governments differ from those of an agent who shares her project valuation, v, but chooses a date-2 domestic government to maximize total expected date-2 surplus between that voter and FG. Such an agent would prefer the hostile government if and only if $v \leq \frac{\overline{v}+\underline{v}}{2}$.[18] The reason for this divergence is that a voter

[17] This follows from $\int_{-(\overline{v}+v_F)}^{-(\underline{v}+v_F)} (\frac{\overline{v}+\underline{v}}{2} + v_F + \lambda) f(\lambda) d\lambda = 0$.

[18] Total expected date-2 surplus between a voter with date-1 project valuation v and FG with valuation v_F is

does not value *total* surplus, but rather her *share* of the surplus. This highlights a possible source of inefficiency in domestic election outcomes that are sensitive to a country's external negotiations.

Voters' induced preferences over date-2 representatives are manipulable by *both* date-1 governments. FG can manipulate a voter's trade-offs via its initial offer, $b_1 \geq s_1$: more generous offers—if accepted—steer voters toward the more project-friendly party. But DG_1 can also manipulate voters' trade-offs via its choice to accept or reject the offer, $r_1(b_1) \in \{0,1\}$: rejecting an offer bequeathes a worse status quo, steering voters toward the more hostile party. How these concerns affect the prospect of initial agreement, and the division of the surplus, will depend on the policy conflict between parties, between the parties and their electorate, and between *all* domestic agents and the foreign government. We now show how these conflicts resolve.

Henceforth, we assume that the distribution of voters' project valuations has a unique median, v^{med}. The single-peaked structure of induced preferences then implies that the voter with this median valuation is decisive in an election: for any standing offer s_2, the hostile party wins if and only if $v^{\text{med}} \leq \frac{\underline{v}+\overline{v}}{2} + (v_F - s_2) \equiv \hat{v}(s_2)$. We assume that at date 1, both the foreign government and domestic parties are uncertain of the future median voter's project valuation:

Assumption 4: The valuation v^{med} of the median voter is drawn from a uniform distribution on the interval $[v^e - \alpha, v^e + \alpha]$, where (1) $v^e - \alpha < \frac{\underline{v}+\overline{v}}{2}$, and (2) $v^e + \alpha > \frac{\overline{v}+\underline{v}}{2} + v_F - s_1$.

Uniform uncertainty is not essential for our results, but it facilitates tractable comparative statics (e.g., on v^e and α). There are many natural interpretations. For example, the larger is α, the more uncertain are date-1 negotiating parties about the preferences of the domestic electorate. Conditions (1) and (2) imply that there is enough uncertainty about voter preferences that each party wins with positive probability given *any* standing offer, $s_2 \in [s_1, v_F]$. The probability that the majority-preferred date-2 government is the relatively hostile domestic party is therefore:

$$\Pr(v^{\text{med}} \leq \hat{v}(s_2)) = \frac{\hat{v}(s_2) - (v^e - \alpha)}{2\alpha} = \frac{\frac{\underline{v}+\overline{v}}{2} + v_F - s_2 - (v^e - \alpha)}{2\alpha}. \tag{11}$$

The electoral consequences of a more favorable date-2 status quo s_2 differ starkly for the friendly and hostile domestic parties. As s_2 increases—for example, when the date-1 domestic government extracts a larger transfer in exchange for pursuing the project—the hostile party's electoral prospects *fall*, and the friendly party's electoral prospects *rise*. This is a key difference with Wolford (2012), who *assumes* that a domestic incumbent's re-election prospects rise with

maximized by setting $v_D^2 = \underline{v}$ if and only if $\int_{-(\underline{v}+v_F)}^{\sigma}(v + v_F + \lambda)f(\lambda)d\lambda \geq \int_{-(\overline{v}+v_F)}^{\sigma}(v + v_F + \lambda)f(\lambda)d\lambda$, which is equivalent to $v \leq \frac{\underline{v}+\overline{v}}{2}$.

the surplus it extracts from a foreign government in a pre-election negotiation. Our framework highlights that when initial negotiation outcomes become the reversion point in future elections, voters' induced preferences may generate the opposite relationship between an incumbent's negotiated share of the surplus from agreement and its reelection prospects.

We earlier 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 can alter electoral outcomes. To see why, recognize that from the perspective of the date-1 bargaining parties, the expected date-2 surplus derived from a status quo s_2 is:

$$\Pr(v^{\text{med}} \leq \hat{v}(s_2))\Delta(v_D^1, \underline{v}) + \Pr(v^{\text{med}} > \hat{v}(s_2))\Delta(v_D^1, \overline{v}), \tag{12}$$

where $\Delta(v, v_D^2)$ (defined in equation (6)) is the ex-ante expected date-2 surplus from the perspective of the date-1 bargaining parties when DG_1 has project valuation v_D^1 and DG_2 has valuation v_D^2. Thus the *relative total surplus from an agreement* (versus no agreement) is:

$$(1-\delta)(v_F + v_D^1) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(v_D^1, \underline{v}) - \Delta(v_D^1, \overline{v})). \tag{13}$$

Lemma 2 highlights how the relative total surplus from an agreement changes with the terms of the agreement, depending on whether DG_1 is relatively *friendly* or relatively *hostile*.

Lemma 2. *For any $\delta > 0$, the relative total surplus from an agreement with transfer b_1 between the foreign government and the date-1 domestic government is:*

1. *strictly* increasing *in b_1 if DG_1 is relatively friendly, with valuation $\overline{v}$,*
2. *strictly* decreasing *in b_1 if DG_1 is relatively hostile, with valuation $\underline{v}$.*

To understand why, notice that the change in relative surplus between the date-1 negotiators from increasing the transfer from b_1 to a higher offer b_1' is:

$$\delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1')) - \Pr(v^{\text{med}} \leq \hat{v}(b_1)))(\Delta(v_D^1, \underline{v}) - \Delta(v_D^1, \overline{v})).$$

If DG_1 is friendly, i.e., if $v_D^1 = \overline{v}$, then the second bracketed term is strictly negative; if instead DG_2 is hostile, i.e., if $v_D^1 = \underline{v}$, then the second term is strictly positive. However, higher transfers also encourage domestic voters to support the friendly party in the polls, so that:

$$b_1' > b_1 \Rightarrow \hat{v}(b_1') < \hat{v}(b_1) \Rightarrow \Pr(v^{\text{med}} \leq \hat{v}(b_1')) < \Pr(v^{\text{med}} \leq \hat{v}(b_1)).$$

The relatively hostile party values retaining office—both for office rents and because of policy differences with the relatively friendly party—so more generous transfers indirectly reduce its value from a date-1 agreement, while the opposite holds for the friendly party. The change in surplus reflects both office rents and policy differences, as each party values its role in negotiating agreements. As office rents w rise, the consequences for increasing or decreasing the surplus are compounded, but they do not vanish as w becomes very small, since policy conflicts remain.

Lemma 2 highlights the polarizing effect of domestic elections on conflicts and confluences of interest between the date-1 negotiating parties. In the benchmark setting with exogenous elections, different offers change the division of the surplus, but not its size. In contrast, when elections are sensitive to negotiation outcomes, offers affect both the surplus size and its division.

We now characterize date-1 negotiation outcomes. DG_1 accepts an offer, i.e., $r_1(b_1) = 1$, if and only if:

$$
\begin{aligned}
&(1-\delta)(v_D^1 + b_1) + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1))(\mathbf{1}[v_D^1 = \underline{v}]w + V_D(v_D^1, \underline{v}, b_1)) \\
&\qquad + \delta \Pr(v^{\text{med}} > \hat{v}(b_1))(\mathbf{1}[v_D^1 = \overline{v}]w + V_D(v_D^1, \overline{v}, b_1)) \\
\geq\ &(1-\delta)0 \qquad + \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))(\mathbf{1}[v_D^1 = \underline{v}]w + V_D(v_D^1, \underline{v}, s_1)) \\
&\qquad + \delta \Pr(v^{\text{med}} > \hat{v}(s_1))(\mathbf{1}[v_D^1 = \overline{v}]w + V_D(v_D^1, \overline{v}, s_1)).
\end{aligned} \tag{14}
$$

Thus, FG's date-1 proposal solves:

$$
\begin{aligned}
\max_{b_1 \geq s_1}\ &(1-\delta) r_1(b_1)(v_F - b_1) + \delta \Pr(v^{\text{med}} \leq \hat{v}(s_2(r_1(b_1), b_1))) V_F(\underline{v}, s_2(r_1(b_1), b_1)) \\
&+ \delta \Pr(v^{\text{med}} > \hat{v}(s_2(r_1(b_1), b_1))) V_F(\overline{v}, s_2(r_1(b_1), b_1)),
\end{aligned} \tag{15}
$$

subject to the participation constraint that $r_1(b_1) = 1$ if (14) holds, and $r_1(b_1) = 0$, otherwise, and the date-2 status quo offer is $s_2(r_1(b_1), b_1) = r_1(b_1) b_1 + (1 - r_1(b_1)) s_1$. We first characterize date-1 negotiation outcomes between the foreign government and the hostile party.

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

1. *If $\underline{v} + v_F \leq 0$, i.e., the static surplus between hostile DG_1 and FG is* negative*, a date-1 agreement is* never *signed.*
2. *If $\underline{v} + v_F > 0$, there exists $\delta^*(\underline{v}, w) > 0$ such that if and only if an election is* not too close*, i.e., $\delta \leq \delta^*$, a date-1 agreement is signed. Threshold $\delta^*(\underline{v}, w)$ satisfies $\lim_{w \to \infty} \delta^*(\underline{v}, w) = 0$ for any $\underline{v} \in (-v_F, \overline{v})$.*

3. *If there is a date-1 agreement, the foreign government retains all of the surplus.*

With a responsive electorate, more than a positive static surplus is necessary for the governments to reach an initial agreement. With a hostile domestic government, more generous offers *reduce* the governments' anticipated future surplus. The reason is that more generous offers lower the prospect that the hostile party retains power, denying it both the chance to capture office rents w and the ability to steer future negotiations. In a dynamic setting where elections do not respond to negotiations, an agreement would be signed whenever date-1 surplus is positive. Now, however, sufficiently imminent elections preclude a date-1 agreement, for *any* positive date-1 surplus, if office-holding motives are strong. Finally, because one government's gain must constitute a loss to the other, the foreign government appropriates all surplus whenever an agreement is reached, as in the benchmark setting. Proposition 2 highlights that more proximate elections can make impossible an agreement between FG and the hostile DG_1 that otherwise could have been secured, i.e., even when the static surplus from agreement is *positive*.

Matters are very different when DG_1 is the friendly party with project valuation $\overline{v}$:

Proposition 3. *(*Friendly Party Initially Holds Power*).*

1. *If $\overline{v} + v_F \geq 0$, so the static surplus between friendly DG_1 and FG is* positive*, a date-1 agreement is* always *signed.*

2. *If $\overline{v} + v_F < 0$, there exists $\delta^{**}(\overline{v}, w) > 0$ such that if and only if an election is* sufficiently close*, i.e., $\delta \geq \delta^{**}$, a date-1 agreement is signed. Threshold $\delta^{**}(\overline{v}, w)$ satisfies $\lim_{w\to\infty} \delta^{**}(\overline{v}, w) = 0$ for any $\overline{v} \in (\underline{v}, -v_F)$.*

3. *If FG's valuation v_F is not too small, there exists $\hat{\delta} > \delta^{**}$ such that if the election is sufficiently close, i.e., if $\delta > \hat{\delta}$, and office rents are sufficiently large, then FG offers DG_1 a* strictly positive *share of the surplus from the agreement.*

In a dynamic setting where elections do not respond to negotiations, a positive static surplus is necessary and sufficient for the governments reach an agreement. But with endogenous turnover, a positive static surplus is no longer necessary: more generous offers bolster the reelection prospects of the friendly DG_1, raising its chances of gaining office rents w as well as the ability to steer subsequent negotiations in its favor. When elections respond to negotiating outcomes, the surplus from agreement itself changes with more generous offers: the date-1 negotiating parties' joint desire to exclude the hostile party by shaping voters' induced preferences creates a confluence of interest that may facilitate agreement despite a negative static surplus. As elections draw nearer, the static conflict between FG and friendly DG_1 pales in significance to the joint interest of both governments in using date-1 outcomes to steer voters' induced preferences in favor of re-electing the incumbent. If office-holding motives are strong enough, imminent elections facilitate a date-1 agreement for *any* date-1 surplus—positive *or* negative. Proposition 3 highlights that more proximate elections make possible an agreement between FG and the friendly DG_1 that otherwise could not have been secured.

Proposition 1 establishes that in a setting with exogenous turnover, a date-1 agreement is signed whenever it is efficient to undertake the project, i.e., when the (dynamic) surplus from an agreement is positive, from the perspective of the date-1 negotiating parties. In a Supplemental Appendix, we highlight that in a setting with endogenous turnover (i.e., Propositions 2 and 3), date-1 negotiations may fail even when there exist transfers from FG to DG_1 for which the joint surplus from an agreement is strictly positive.[19]

With exogenous turnover, or when DG_1 is relatively hostile, FG appropriates all surplus from agreement. By contrast, Proposition 3 shows that when DG_1 is relatively friendly, an imminent election may induce FG to offer DG_1 strictly positive surplus. The reason is that when negotiations are conducted close to the election, FG's interest in promoting the friendly DG_1's reelection may lead it to make more generous offers that sway voters toward the incumbent.

This raises a basic question: conditional on securing a date-1 agreement, which date-1 party—the hostile party or the friendly one—extracts 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:

Corollary 1. *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 result reflects that *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*. The hostile DG_1's participation constraint is more stringent than the analogous constraint for a friendly

[19] The normative consequences may be less clear-cut when evaluated from the perspective of other domestic agents than the date-1 domestic government, such as the median voter. Since we do not explain the initial appointment of the date-1 domestic government, and the circumstances under which it was majority-preferred, we refrain from pursuing welfare results along these lines. We thank an anonymous referee, who encouraged us to highlight the potential ambiguity in evaluating date-1 policy outcomes.

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. This offer, b_1^*, solves the first-order condition associated with (15). 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 $b_1 \in [s_1, b_1^*]$—and so, the hostile party's value relative to rejection is strictly *decreasing* on this interval. It follows that to induce the hostile DG_1's participation, FG must over-extend 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. In the event that the friendly DG_1 reaches agreement with FG, its conflict with voters rises with its value from holding office w, because 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 office concerns are less clear-cut. On the one hand, conditional on securing agreement, greater 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.

In a Supplemental Appendix, we compare equilibrium transfers when an agreement is reached in our benchmark setting of exogenous turnover (i.e., Proposition 1) with the corresponding transfers when an agreement is reached in the context of endogenous turnover (i.e., Propositions 2 and 3). We show that whenever FG's transfer to friendly DG_1 is larger with endogenous turnover than in our benchmark setting, FG's transfer to the hostile DG_1 is also larger whenever an agreement is reached. Moreover, if the relative value of holding date-2 domestic power (w) is sufficiently large, then—relative to the benchmark with exogenous turnover—FG's date-1 transfer that ensures DG_1's participation in the setting with endogenous turnover *decreases*, while the transfer that is needed to satisfy hostile DG_1's participation *increases*.[20]

Consequences of Changes in Domestic Politics. We now ask how changes in the preferences of the two domestic parties affect FG's preferred initial interior offer, i.e., the interior offer that solves FG's objective (15). FG's responses turn on the answers to two questions: how does

[20] The reason is that higher transfers also facilitate the reelection of friendly DG_1 in the setting with endogenous turnover, but harm the reelection of hostile DG_1. For any given offer $b_1 > s_1$, this increases the relative willingness of friendly DG_1 to accept, and lowers the relative willingness of hostile DG_1 to accept. We are grateful to an anonymous referee, who encouraged us to make this comparison.

the change affect FG's relative *value* from steering the subsequent election toward the friendly party? And, how does the change affect FG's *ability to influence* the electoral outcome? Recall that, under Assumption 4, we assume that v^{med} is uniformly distributed on $[v^e - \alpha, v^e + \alpha]$.

Suppose that one of the domestic political parties grows more inclined toward the project, i.e., either $\underline{v}$ or $\overline{v}$ 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 party preference shift also alters the electoral competitiveness of the two parties. Recall that a voter who is indifferent between the parties has project valuation

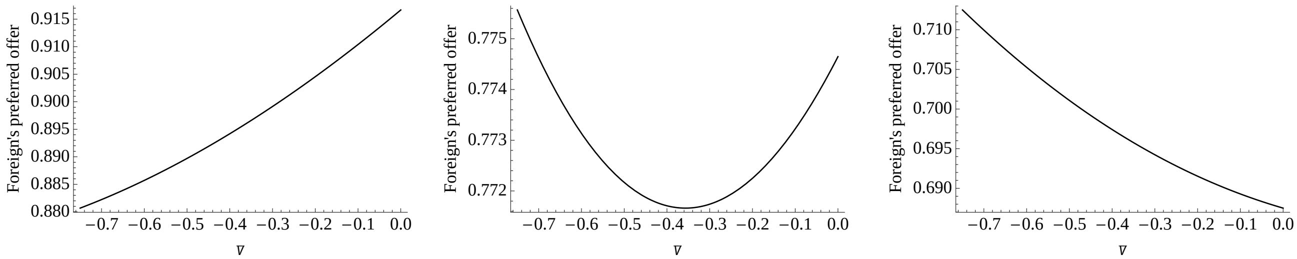
$$\hat{v}(s_2) = \frac{\underline{v} + \overline{v}}{2} + (v_F - s_2).$$

Absent any change in the negotiation settlement, a higher $\overline{v}$ *lowers* the electoral competitiveness of the friendly party by shifting $\hat{v}$ to the right, raising the prospect that the median domestic voter will favor the hostile party. Conversely, a higher $\underline{v}$ *raises* the electoral competitiveness of the hostile party. Absent any change in FG's offer, these shifts place the friendly party at an increased disadvantage. This encourages FG to respond with *larger* transfers.

Finally, FG's value from promoting the friendly party's reelection depends on the wedge $\overline{v} - \underline{v}$ 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 domestic election in the friendly party's favor, encouraging FG to *raise* its transfer. By contrast, when the hostile party moderates, the wedge shrinks, This reduces FG's stakes, encouraging FG to *lower* its transfer.

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 voters' choices to offers. With uniformly distributed uncertainty, the density of v^{med} evaluated at the threshold $\hat{v}(s_2)$ is $\frac{1}{2\alpha}$: electoral outcomes are more sensitive to offers when α is lower.

When α is large, election outcomes are insensitive to offers, so 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 *either* party reflects that, *conditional on holding office*, that party is less likely to successfully renegotiate the terms. This encourages FG to reduce its offer. When α is small enough, election outcomes become sensitive to offers, and the FG can more effectively steer the domestic electorate in favor of the friendly party by way of a more generous offer. We



(a) $\alpha = 4$ **(b)** $\alpha = 5.1$ **(c)** $\alpha = 6$

Figure 1 – Illustration of how FG's most preferred proposal varies with the *friendly* party's project valuation. Parameters: $\delta = 1$, $v_F = 3$, $\theta = .5$, $\sigma = 3$, $\underline{v} = -3$, $v^e = -1$, $s_1 = 0$ and $\overline{v} \in [-\frac{3}{4}, 0]$. 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 $\overline{\alpha}_* \sim 4.62$, $\overline{\alpha}^* \sim 5.54$, and $\overline{v}^*(\alpha) = .5(-3\alpha + \sqrt{3}\sqrt{\alpha(7\alpha - 8)} - 6)$.

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

Figure 1 illustrates these findings. If α is small (panel (a)), election outcomes are very sensitive to negotiation outcomes, so FG responds to increases in $\overline{v}$ with increased offers, to promote the reelection of the friendly DG_1. But, if α is large (panel (c)), election outcomes are 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, when α is intermediate (panel (b)), the election is only moderately sensitive to international negotiations. When $\overline{v}$ and $\underline{v}$ are very close, the two parties are almost indistinguishable from FG's perspective. As a result, increases in $\overline{v}$ 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 $\alpha > \overline{\alpha}_*$), FG prefers to respond to a higher $\overline{v}$ with *smaller* transfers.

As the friendly party grows even more favorably disposed to the project, i.e., $\overline{v}$ rises, FG's trade-offs change. The increasing wedge $\overline{v} - \underline{v}$ 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 $\alpha < \overline{\alpha}^*$), FG responds to a higher $\overline{v}$ with *larger* transfers.

Distinct considerations drive FG's response when the hostile party's valuation $\underline{v}$ rises:

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

$$v^e - \underline{v} < v_F - s_1, \tag{16}$$

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

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

The difference $v^e - \underline{v}$ represents the intrinsic expected 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 additional surplus that could be extracted from renegotiating a standing offer s_1 up to v_F, and which a hostile government is more likely to secure. We say that the hostile party is 'competitive' when condition (16) holds.

Condition (16) holds in Figure 1. When the hostile party is competitive, its behavior *conditional on winning office* dominates FG's calculation. As $\underline{v}$ 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 relatively uncompetitive, changes in fundamentals that improve its *electoral prospects* weigh more heavily on FG. If α is small, the election outcome is sensitive to date-1 transfers, so FG responds to a higher $\underline{v}$ with more generous offers to offset the hostile party's increased electoral advantage. If, instead, α is large, FG lowers its transfer, because it understands that efforts to influence the election via its offer would be ineffectual.

Finally, when α is intermediate, the election outcome is only moderately sensitive to offers. Again, when $\underline{v}$ rises, the hostile party becomes more electorally competitive. But if $\underline{v}$ is very close to $\overline{v}$, 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 $\alpha > \underline{\alpha}_*$), FG prefers to respond to a higher $\underline{v}$ with *smaller* transfers. If, instead, the hostile party's valuation $\underline{v}$ is initially far less than $\overline{v}$, 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 an increase in $\underline{v}$. In conjunction with the non-trivial electoral returns from raising its offer (since $\alpha < \underline{\alpha}^*$), FG prefers to respond to a higher $\underline{v}$ with *larger* transfers.

Proposition 5 contrasts strikingly with the main predictions of the two-level games literature, in which agreements signed between DG_1 and FG are subject to ratification by a distinct domestic agent. Suppose, for example, that the domestic country has a ratification requirement, that the relatively hostile party holds ratification authority, but initial negotiations with the foreign government are conducted by the relatively friendly party. This could arise with a divided government in which the friendly party holds executive authority, but the hostile party controls the legislative upper chamber. In that setting, a more hostile ratifier allows the friendly DG_1 to extract more concessions from FG, since FG recognizes that the hurdle for successful ratification increases as the ratifier becomes more intrinsically opposed to the project.

In the context of elections with subsequent renegotiation, however, Proposition 5 highlights that the opposite outcome may arise. The reason is that FG anticipates a lower prospect that the hostile party replaces the friendly party for any standing offer. This (1) reduces FG's perceived urgency of using transfers to shift voters' induced preferences in favor of the friendly government via larger initial concessions, and (2) reduces FG's need to buttress its future negotiating position against the date-2 domestic government, which is more likely to be relatively friendly for any given standing offer. Thus, a more hawkish domestic opposition party may *reduce* the concessions extracted by friendly DG_1, reversing the empirical prediction of the Schelling conjecture in settings where electoral considerations are first-order (Milner, 1997).

Conversely, we could evaluate the consequences of greater uncertainty (α) on the part of the date-1 negotiating parties about the preferences of the domestic electorate. First, higher α lowers FG's anticipated returns from offering more transfers to secure friendly DG_1's reelection. This encourages FG to *lower* its offer. Second, more uncertainty raises the possibility both of an even more project-averse median voter (i.e., lowers $z^e - \alpha$) and an even more project-friendly median voter (i.e., raises $z^e + \alpha$). There exist primitives for which the former consideration weighs more heavily in FG's calculation: in this case, FG may prefer to offer even more generous transfers, *not* to facilitate the reelection of the friendly DG_1, but rather to buttress its future negotiating position against a more likely hostile successor.[21]

Extensions and Robustness

In the Appendix, we pursue several extensions, a subset of which we briefly outline.

More Domestic Alternatives. Our benchmark analysis considers a two-party system. In the Appendix, we allow the median voter to select a date-2 domestic government that has *any* valuation $v_D^2 \in [\underline{v}, \overline{v}]$. This may reflect a setting with purely office-motivated parties that can commit to any policy.[22] Given a standing offer, s_2, a voter with valuation v most prefers a DG_2 with valuation $v - (v_F - s_2)$. This is also true in our benchmark setting; but there voters must choose from one of two possible alternatives. In the extension, by contrast, the median voter can always achieve her most preferred date 2 alternative. This, however, can feedback to adversely affect date-1 agreements and hence expected voter payoffs.

Our result for exogenous election outcomes (Proposition 1) that static and dynamic conditions for a date-1 agreement coincide extends directly to this setting. In the two-party setting with endogenous elections, however, Lemma 2 shows that, depending on the valuation of DG_1, the total surplus from agreement is either strictly increasing, or strictly decreasing, in the standing offer s_2. With more than two alternatives, the relationship between standing offers and surplus is more subtle. When the median voter's valuation is distributed uniformly on $[v^e - \alpha, v^e + \alpha]$ and $v^e - \alpha - (v_F - s_1) > \underline{v}$ and $v^e + \alpha < \overline{v}$, the project valuation of the median's preferred date-2 representative is contained in $(\underline{v}, \overline{v})$. We have:

Lemma 3. *Suppose that the median voter selects DG_2 from the interval $[\underline{v}, \overline{v}]$. Then, the expected total surplus from an agreement between FG and DG_1 with valuation v_D^1 is a single-peaked function of the offer b_1, with unique maximizer $b^* = v_D^1 + v_F - v^e$.*

To understand the result, recall that DG_2's valuation in the event of an agreement is $\hat{v}_D^2(b_1) = v^{\text{med}} - (v_F - b_1)$, so that the total expected date-2 surplus between the date-1 governments is:

$$\int_{v^e-\alpha}^{v^e+\alpha} \int_{-(v_F+\hat{v}_D^2(b_1))}^{\sigma} \frac{1}{2\alpha} \left[\mathbf{1}[\hat{v}_D^2 = v_D^1]w + (v_D^1 + v_F + \lambda) f(\lambda)\, d\lambda\, \right] dv^{\text{med}}. \tag{17}$$

[21] Formally, we can show that there exists at most one threshold v^* such that if and only if $v^e \geq v^*$, i.e., the median voter is expected to be sufficiently favorable to the project, FG's most preferred (interior) offer to friendly DG_1 *increases* when uncertainty about domestic preferences (α) increases.

[22] If purely office-motivated parties can commit to any policy, assuming that the median voter selects DG_2 is without loss of generality, since voters' induced preferences over alternative DG_2 valuations are single-peaked.

This surplus is maximized—both via policy rents and policy payoffs—when $\mathbb{E}[\hat{v}_D^2(b_1)] = v_D^1$, i.e., when $b_1 = v_D^1 + v_F - v^e$. Thus, any DG_1 with valuation in $(\underline{v}, \overline{v})$ has both a partial conflict of interest with FG, and a partial confluence of interest. To the extent that more generous offers push the expected valuation of DG_2 up and toward the initial valuation of DG_1, the governments are aligned. But as more generous offers push the expected valuation of DG_2 above the initial valuation of DG_1, the conflict between governments intensifies.

In our base two-party setting, the *absolute* degree of alignment between DG_1 and FG, i.e., the values of v_D^1 and v_F, does not affect the sign of the impact of more generous offers on the surplus: what matters is the *relative* alignment, i.e., which party is *most closely* aligned. In contrast, with many possible succeeding parties, the expression for b^* in Lemma 3 reveals that *absolute* degrees of conflict between the governments and voters determines the extent to which DG_1 and FG are sufficiently aligned in their dynamic interests to achieve date-1 agreements.

Limited Policy Commitments.[23] Our core analysis presumes that parties cannot commit to platforms prior to entering office: voters anticipate that parties will choose the bargaining stance that maximizes their expected payoffs once they enter office. In the Appendix, we consider a related setting in which, between dates 1 and 2 but before learning the shock to voter preferences, the friendly and hostile parties may each commit to a *bargaining posture*—i.e., a party may commit to negotiating at date 2 as if it had some intrinsic value v. Consistent with Calvert (1985), platform differentiation arises in equilibrium: the hostile party commits to a more hostile bargaining stance than the friendly party. There is, however, a degree of moderation by the parties, because they trade-off the prospect of winning—which calls on them to adopt a posture that is closest to the expected median's most preferred posture—with their intrinsic policy motivation. Thus, the hostile party's promised platform lies to the right of its most preferred bargaining posture (prior to learning λ), and the friendly party's platform lies to the left of its most preferred bargaining posture.

Retrospective Voting. Our base 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 the incumbent according to a linearly increasing function of their date-1 payoffs. Specifically, we assume:

$$\Pr(\text{reelect incumbent}|\text{ date-1 outcome}) = \max\{0, \min\{a + \beta r_1(v^{\text{med}} + b_1), 1\}\}.$$

Here a reflects electoral aspects that do not depend on international negotiations, and β cap-

[23] We thank Gilat Levy, who suggested this extension.

tures the salience of the negotiations in the election—when β is large, the date-1 domestic government's electorate fortunes are more sensitive to negotiation outcomes.

In our two-party benchmark setting, we show that if (1) international negotiations are sufficiently salient and (2) domestic parties are sufficiently polarized, in the sense that

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

then an analogue of Proposition 2 holds: if DG_1 is hostile, i.e., with value $\underline{v}$, then either no agreement is signed or FG holds hostile DG_1 to its participation constraint. When $\overline{v} - \underline{v}$ is large, FG's value from steering voters toward the friendly party is large, and when β 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 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, with retrospective voters, a friendly DG_1 may secure a *larger* date-1 transfer than a hostile DG_1.

Conclusion

We analyze the dynamics of international agreements and domestic politics. We ask: how do the prospects for initial cooperation and the terms of agreement vary with uncertainty about whether one of the negotiating parties will 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 walk away?

If election 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 hinge on bargaining outcomes, negotiations reflect 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. If the governments are closely aligned, the dynamic surplus from an agreement is high, facilitating negotiations even when static surplus is negative. By contrast, if the governments are less aligned relative to the pivotal voter, the dynamic surplus from agreement falls, 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.

It is also interesting to consider the possibility that in some political contexts, the timing of negotiations may be endogenous—e.g., if a domestic government can choose election timing as in a parliamentary democracy, or if negotiating parties strategically initiate negotiations close to, or far from, an upcoming election. Paradoxically, a hostile party may want to speed up initial negotiations so that the future weighs less on outcomes, while a friendly party may want to hold back, so that the weight on the future grows, imposing testable restrictions on the data.

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.[24] 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.

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Appendix

Proof of Proposition 1. We first verify necessary and sufficient conditions for the project to be implemented at date 1. DG_1's relative value from a date-1 agreement with transfer b_1 is given by the difference of the LHS and RHS of (5); this difference is convex in b_1 and strictly negative evaluated at $b_1 = s_1$, under Assumption 1 that $\underline{v} < \overline{v}$ and under Assumption 2 that $\overline{v} + s_1 < 0$. We conclude that there exists at most one transfer $b_D(v_D^1) > s_1$ such that DG_1's participation constraint (5) is satisfied if and only if $b_1 \geq b_D(v_D^1)$. Similarly, FG's relative value from a date-1 agreement is concave in b_1, strictly positive evaluated at $b_1 = s_1$ under Assumption 2 that $v_F > s_1$, and strictly negative evaluated at $b_1 = v_F$. Thus, there exists a unique transfer $b_F \in (s_1, v_F)$ such that FG's relative date-1 value of agreement is positive if and only if $b_1 \leq b_F$. We conclude that there exists a transfer $b_1 \geq s_1$ such that both DG_1 and FG receive a weakly higher value from a date-1 agreement at b_1 than from no date-1 agreement if and only if $b_D(v_D^1) \leq b_F$, which is equivalent to $(1-\delta)(v_D^1 + v_F) \geq 0$.

We next show that if $v_D^1 + v_F \geq 0$, FG's offer b_1 satisfies DG_1's participation constraint—given by (5)—with equality. Fix DG_1's strategy $r_1(b_1) = 1$ if and only if $b_1 \geq b_D(v_D^1)$. Suppose, to the contrary, that FG weakly prefers to make a date-1 offer $b_1 > b_D(v_D^1)$. This is equivalent to

$$\begin{aligned} &(1-\delta)(v_F - b_1) \ + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, b_1) \\ &\geq (1-\delta)(v_F + v_D^1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)\Delta(v_D^1, v_D^2) - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, s_1)]. \end{aligned} \tag{18}$$

Recalling that $\Delta(v_D^1, v_D^2) = \mathbf{1}[v_D^2 = v_D^1]w + \int_{-(v_D^2+v_F)}^{\sigma}(v_D^1 + \lambda + v_F)f(\lambda)d\lambda$, we observe that

$$\sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, s_1)] = \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)\Delta(v_D^1, v_D^2) - \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, s_1) \tag{19}$$

and therefore re-write (18) as:

$$(1-\delta)(v_F - b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, b_1) \ \geq \ (1-\delta)(v_F + v_D^1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, s_1),$$

or:

$$(1-\delta)(v_D^1 + b_1) \leq \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[V_F(v_D^2, b_1) - V_F(v_D^2, s_1)]. \tag{20}$$

Finally, $b_1 > b_D(v_D^1)$ implies that DG_1 strictly prefers $r_1(b_1) = 1$, i.e.,

$$\begin{aligned} (1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, b_1)] \\ > \ \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, s_1)], \end{aligned} \tag{21}$$

which is equivalent to:

$$(1-\delta)(v_D^1 + b_1) > \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[V_F(v_D^2, b_1) - V_F(v_D^2, s_1)], \tag{22}$$

and which therefore contradicts expression (20). □

Proof of Lemma 1. A domestic voter with project valuation v prefers the hostile party if and only if $V_D(v_D^1, \underline{v}, s_2) \geq V_D(v_D^1, \overline{v}, s_2)$. Substituting $\lambda \sim U[-\sigma, \sigma]$ and using Assumption 3 reveals that this condition is equivalent to $v \leq \frac{\underline{v}+\overline{v}}{2} + v_F - s_2$. □

Proof of Lemma 2. The total relative surplus from an agreement with transfer b_1 between FG and the DG$_1$ is:

$$(1-\delta)(v_D^1+v_F)+\delta[\Pr(v^{\text{med}}\le\hat{v}(b_1))\Delta(v_D^1,\underline{v})+\Pr(v^{\text{med}}>\hat{v}(b_1))\Delta(v_D^1,\overline{v})]$$
$$-\delta[\Pr(v^{\text{med}}\le\hat{v}(s_1))\Delta(v_D^1,\underline{v})+\Pr(v^{\text{med}}>\hat{v}(s_1))\Delta(v_D^1,\overline{v})], \tag{23}$$

where we recall that $\Delta(v_D^1,v_D^2)=\mathbf{1}[v_D^2=v_D^1]w+\int_{-(v_D^2+v_F)}^{\sigma}(v_D^1+\lambda+v_F)f(\lambda)d\lambda$. Thus, the change in total relative surplus from an agreement with transfer b_1' rather than $b_1<b_1'$ is:

$$\delta(\Pr(v^{\text{med}}\le\hat{v}(b_1'))-\Pr(v^{\text{med}}\le\hat{v}(b_1)))(\Delta(v_D^1,\underline{v})-\Delta(v_D^1,\overline{v})). \tag{24}$$

We observe that $\Delta(\underline{v},\underline{v})-\Delta(\underline{v},\overline{v})>0$, and $\Delta(\overline{v},\underline{v})-\Delta(\overline{v},\overline{v})<0$. Moreover, recalling that $v^{\text{med}}\sim U[v^e-\alpha,v^e+\alpha]$, we have $\Pr(v^{\text{med}}\le\hat{v}(b_1))=\frac{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1-(v^e-\alpha)}{2\alpha}$, so that $b_1'>b_1$ implies $\Pr(v^{\text{med}}\le\hat{v}(b_1'))-\Pr(v^{\text{med}}\le\hat{v}(b_1))<0$. Thus, if $\delta>0$, (24) is strictly positive if $v_D^1=\overline{v}$, and strictly negative if $v_D^1=\underline{v}$. $\square$

Proof of Proposition 2. The difference between the total expected surplus from a date-1 agreement with transfer b_1 between FG and the hostile DG$_1$ with date-1 valuation $\underline{v}$, and the total expected surplus from no date-1 agreement, is:

$$(1-\delta)(\underline{v}+v_F)+\delta(\Pr(v^{\text{med}}\le\hat{v}(b_1))-\Pr(v^{\text{med}}\le\hat{v}(s_1)))(\Delta(\underline{v},\underline{v})-\Delta(\underline{v},\overline{v})). \tag{25}$$

For any $\delta\in(0,1)$, (25) strictly decreases in b_1, and has a unique zero that we denote $b^{\Delta}(\underline{v},\delta)$. For hostile DG$_1$ with valuation $\underline{v}$, the relative value of an agreement with transfer b_1, versus no agreement, is:

$$\Psi(b_1,\underline{v},\delta)=(1-\delta)(\underline{v}+b_1)+\delta\Pr(v^{\text{med}}\le\hat{v}(b_1))V_D(\underline{v},\underline{v},b_1)+\delta\Pr(v^{\text{med}}>\hat{v}(b_1))V_D(\underline{v},\overline{v},b_1)$$
$$-\delta\Pr(v^{\text{med}}\le\hat{v}(s_1))V_D(\underline{v},\underline{v},s_1)-\delta\Pr(v^{\text{med}}>\hat{v}(s_1))V_D(\underline{v},\overline{v},s_1)$$
$$-\delta\Pr(\hat{v}(b_1)\le v^{\text{med}}\le\hat{v}(s_1))w, \tag{26}$$

convex in b_1 with a unique zero $b_1^D(\underline{v})>s_1$, such that (26) is weakly positive if and only if $b_1\ge b_1^D(\underline{v})$. By straightforward algebra, $\underline{v}+v_F\le 0$ implies $b^{\Delta}(\underline{v},\delta)\le s_1$, and therefore (25) is strictly negative evaluated at $b_1^D(\underline{v})>s_1$. We conclude that if $\underline{v}+v_F\le 0$, a date-1 agreement is not signed for any $\delta>0$. Suppose, next, $\underline{v}+v_F>0$. Then, a necessary and sufficient condition for a date-1 agreement is $\Psi(b^{\Delta}(\underline{v},\delta),\underline{v},\delta)\ge 0$. Straightforward algebra reveals that $\Psi(b^{\Delta}(\underline{v},\delta),\underline{v},\delta)$ is strictly convex in $\delta\in(0,1)$ under Assumptions 1 and 2, that $\Psi(b^{\Delta}(\underline{v},1),\underline{v},1)=0$, and that there exists one additional root $\hat{\delta}(\underline{v},w)$ i.e., solving $\Psi(b^{\Delta}(\underline{v},\hat{\delta}(\underline{v},w)),\underline{v},\hat{\delta}(\underline{v},w))=0$. It follows that an agreement is signed if and only if $\delta\le\delta^*(\underline{v},w)=\min\{\hat{\delta}(\underline{v},w),1\}$. To see that $\hat{\delta}(\underline{v}, w) > 0$ whenever $\underline{v} + v_F > 0$, we observe that $\hat{\delta}(\underline{v}, w)$ is equated to zero for three values of $\underline{v}$: $\underline{v}_1 = -v_F$, $\underline{v}_2 = -v_F + \alpha(1+\theta) + \sqrt{(v_F + \overline{v})^2 + (1+\theta)^2\alpha^2 + 4w\sigma}$, and $\underline{v}_3 = -v_F + \alpha(1+\theta) - \sqrt{(v_F + \overline{v})^2 + (1+\theta)^2\alpha^2 + 4w\sigma}$. Since $\underline{v}_2 \geq \overline{v}$, $\underline{v}_3 \leq -v_F$, and $\hat{\delta}(\underline{v}, w)$ strictly increases in $\underline{v}$ evaluated at $\underline{v} = -v_F$, we conclude $\hat{\delta}(\underline{v}, w) > 0$ for all $\underline{v} \in (-v_F, \overline{v})$. It is straightforward to verify that $\lim_{w\to\infty} \hat{\delta}(\underline{v}, w) = 0$.

To prove the final claim, suppose that a date-1 agreement is signed, and conjecture that (by way of contradiction) FG weakly prefers to advance an offer $b_1' > b_1^D(\underline{v})$. This implies:

$$\begin{aligned}(1-\delta) \;\; & (v_F - b_1') + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))V_F(\underline{v}, b_1') + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_F(\overline{v}, b_1') \\ \geq \;\; & (1-\delta)(v_F + \underline{v}) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1^D(\underline{v}))) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) \\ & + \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1). \end{aligned} \tag{27}$$

Moreover, $b_1' > b_1^D(\underline{v})$ implies:

$$\begin{aligned}(1-\delta)(\underline{v} + b_1') + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))[V_D(\underline{v}, \underline{v}, b_1') + w] + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_D(\underline{v}, \overline{v}, b_1') \\ > \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))[V_D(\underline{v}, \underline{v}, s_1) + w] + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_D(\underline{v}, \overline{v}, s_1). \end{aligned} \tag{28}$$

Recalling that $\Delta(v_D^1, v_D^2) = \mathbf{1}[v_D^2 = v_D^1]w + \int_{-(v_D^2 + v_F)}^{\sigma}(v_D^1 + \lambda + v_F)f(\lambda)d\lambda$, we may substitute $V_D(v_D^1, v_D^2, b_1) + \mathbf{1}[v_D^2 = v_D^1]w = \Delta(v_D^1, v) - V_F(v, b_1)$, thereby revealing that (28) is equivalent to:

$$\begin{aligned} & \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))V_F(\underline{v}, b_1') + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_F(\overline{v}, b_1') \\ < \; & \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1) \\ & + \; \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1')) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) + (1-\delta)(\underline{v} + b_1'). \end{aligned} \tag{29}$$

Combining (29) and (27) yields $\Pr(v^{\text{med}} \leq \hat{v}(b_1^D(\underline{v}))) < \Pr(v^{\text{med}} \leq \hat{v}(b_1'))$, which implies that $b_1' < b_1^D(\underline{v})$, a contradiction. □

Proof of Proposition 3. The difference between the total expected surplus from a date-1 agreement with transfer b_1 between FG and the friendly DG_1 with date-1 valuation $\overline{v}$, and the total expected surplus from no date-1 agreement, is:

$$(1-\delta)(\overline{v} + v_F) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\overline{v}, \underline{v}) - \Delta(\overline{v}, \overline{v})). \tag{30}$$

For any $\delta \in (0, 1)$, (30) strictly increases in b_1, and has a unique zero that we denote $b^\Delta(\overline{v}, \delta)$.

FG's relative value of an agreement with transfer b_1, versus no agreement, is:

$$\Lambda(b_1,\overline{v},\delta) = (1-\delta)(v_F - b_1) + \delta \Pr(v^{\text{med}} \le \hat{v}(b_1))V_F(\underline{v}, b_1) + \delta \Pr(v^{\text{med}} > \hat{v}(b_1))V_F(\overline{v}, b_1) \\ - \delta \Pr(v^{\text{med}} \le \hat{v}(s_1))V_F(\underline{v}, s_1) - \delta \Pr(v^{\text{med}} > \hat{v}(s_1))V_F(\overline{v}, s_1). \quad (31)$$

For any $\delta \in (0,1)$, (31) is strictly concave in b_1, strictly positive evaluated at $b_1 = s_1$ and strictly negative evaluated at $b_1 = v_F$. We conclude that there exists a unique $b_F \in (s_1, v_F)$ such that (31) is weakly positive only if $b_1 \le b_F$. However, if $\overline{v} + v_F \ge 0$, then straightforward algebra establishes that $b^{\Delta}(\overline{v}) \le s_1$, so that (30) is strictly positive evaluated at b_F. We conclude that if $\overline{v} + v_F \ge 0$, a date-1 agreement is always signed for any $\delta \in (0,1)$. Suppose, next, $\overline{v} + v_F < 0$. A necessary and sufficient condition for a date-1 agreement is $\Lambda(b^{\Delta}(\overline{v},\delta),\overline{v},\delta) \ge 0$. Straightforward algebra reveals that $\Lambda(b^{\Delta}(\overline{v},\delta),\overline{v},\delta)$ is strictly concave in $\delta \in (0,1)$ under Assumptions 1 and 2, that $\Lambda(b^{\Delta}(\overline{v},1),\overline{v},1) = 0$ and that there exists one additional root $\check{\delta}(\overline{v}, w)$, i.e., solving $\Lambda(b^{\Delta}(\overline{v},\check{\delta}(\overline{v},w)),\overline{v},\check{\delta}(\overline{v},w)) = 0$. It follows that an agreement is signed if and only if $\delta \ge \delta^{**}(\overline{v},w) = \min\{\check{\delta}(\overline{v},w),1\}$. We claim that $\check{\delta}(\overline{v},w) > 0$ for any $\overline{v} \in (\underline{v}, -v_F)$. To see this, notice that $\check{\delta}(\overline{v},w) = 0$ has three solutions: $\overline{v}_1 = -v_F$, $\overline{v}_2 = -v_F - \alpha(1+\theta) - \sqrt{(v_F+\underline{v})^2 + (1+\theta)^2\alpha^2 + 4\sigma w}$, and $\overline{v}_3 = -v_F - \alpha(1+\theta) + \sqrt{(v_F+\underline{v})^2 + (1+\theta)^2\alpha^2 + 4\sigma w}$. It is easily verified that $\overline{v}_3 \ge -v_F$, that $\overline{v}_2 \le \underline{v}$, and that $\check{\delta}(\overline{v},w)$ strictly decreases in $\overline{v}$ evaluated at $\overline{v} = -v_F$. We conclude that $\check{\delta}(\overline{v},w) > 0$ for all $\overline{v} \in (\underline{v}, -v_F)$. It is straightforward to verify that $\lim_{w\to\infty} \check{\delta}(\overline{v},w) = 0$.

To prove the final claim, recall that $\Lambda(b_1,\overline{v},\delta)$ is strictly concave in b_1 for $\delta > 0$. Let $b^*(\delta)$ denote the transfer solving the first-order condition associated with (31): $b^*(\delta)$ is strictly concave in δ and satisfies $\lim_{\delta\to 0^+} b_1^*(\delta) = -\infty$. Straightforward computation yields v_F^* such that $b^*(1) > s_1$ if and only if $v_F > v_F^*$. Thus, $v_F > v_F^*$ implies that there exists $\hat{\delta} < 1$ such that $b_1^*(\delta) > s_1$ if and only if $\delta > \hat{\delta}$. Recalling that $b_1^D(v)$ denotes the reservation transfer of DG$_1$ with value $v \in \{\underline{v}, \overline{v}\}$ and that $\Psi(b_1,\underline{v},\delta)$, given by expression (26), is the relative value to hostile DG$_1$ from choosing $r_1(b_1)$, we define the analogous relative value for friendly DG$_1$:

$$\Phi(b_1,\overline{v},\delta) = (1-\delta)(\overline{v} + b_1) + \delta \Pr(v^{\text{med}} \le \hat{v}(b_1))V_D(\overline{v}, \underline{v}, b_1) + \delta \Pr(v^{\text{med}} > \hat{v}(b_1))V_D(\overline{v}, \overline{v}, b_1) \\ - \delta \Pr(v^{\text{med}} \le \hat{v}(s_1))V_D(\overline{v}, \underline{v}, s_1) - \delta \Pr(v^{\text{med}} > \hat{v}(s_1))V_D(\overline{v}, \overline{v}, s_1) \\ + \delta \Pr(\hat{v}(b_1) \le v^{\text{med}} \le \hat{v}(s_1))w, \quad (32)$$

We establish that for any $\delta > \hat{\delta}$, w sufficiently large implies $\Phi(b^*(\delta),\overline{v},\delta) > 0$. To see this, notice that $\Phi(b_1,\overline{v},\delta,w)$ linearly and strictly increases in w if and only if $b^*(\delta) > s_1$, which is true for all $\delta > \hat{\delta}$; since $\lim_{w\to\infty} \Phi(b^*(\delta),\overline{v},\delta)$ takes the same sign as $b^*(\delta) - s_1$, $\delta > \hat{\delta}$ implies that there exists a unique w^* such that if and only if w^*, $\Phi(b^*(\delta), \overline{v}, \delta) > 0$. □

Proof of Corollary 1. Letting $b_1^D(v, \delta)$ denote the reservation transfer of DG_1 with value $v \in \{\underline{v}, \overline{v}\}$, and recalling that $\Psi(b_1, \underline{v}, \delta)$, given by expression (26), is the relative value to hostile DG_1 from choosing $r_1(b_1)$, and that (32) is the corresponding relative value to friendly DG_1 from choosing $r_1(b_1)$, we have that $b_1^D(\underline{v}, \delta) > b_1^D(\overline{v}, \delta)$ if, for any $b_1 > s_1$, $\Psi(b_1, \underline{v}, \delta) - \Phi(b_1, \overline{v}, \delta) < 0$. Using $V_D(v, v', b_1) = \Delta(v, v') - V_F(v', b_1)$, we observe that this is equivalent to:

$$\begin{aligned}(1-\delta)(\underline{v}-\overline{v}) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) \\ - \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\overline{v}, \underline{v}) - \Delta(\overline{v}, \overline{v})) < 0,\end{aligned} \tag{33}$$

which holds by $\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)) < 0$, $\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v}) > 0$, and $\Delta(\overline{v}, \underline{v}) - \Delta(\overline{v}, \overline{v}) < 0$. This established the result for a case in which FG's offer to friendly DG_1 satisfies its participation constraint with equality, i.e., solves $\Phi(b_1, \overline{v}, \delta) = 0$. It remains only to show that $b_1^D(\underline{v}, \delta) > b^*(\delta)$, where $b^*(\delta)$ was defined in the proof of Proposition 3 as the transfer solving the first-order condition associated with (31). Note that $b^*(\delta)$ is offered only if $\delta > 0$. Then, recognize that the hostile DG_1's relative value from an agreement can be written

$$\begin{aligned}&(1-\delta)(\underline{v}+v_F) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) \\ &- \ [(1-\delta)(v_F - b_1) + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1))V_F(\underline{v}, b_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1)))V_F(\overline{v}, b_1) \\ &\quad - \ \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) - \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1)].\end{aligned} \tag{34}$$

The first line is the total expected surplus from a date-1 agreement, and strictly decreases in b_1 for $\delta > 0$. The second and third lines are FG's relative surplus from an agreement with transfer b_1—strictly concave in b_1; by supposition, $b^*(\delta)$ solves the associated first-order condition, and so the second and third lines (inside the brackets) strictly increase in $b_1 \in [s_1, b^*(\delta)]$. Thus, (34) strictly *decreases* in $b_1 \in [s_1, b^*(\delta)]$ for $\delta > 0$, and since hostile DG_1's relatively value from an agreement is strictly negative evaluated at transfer $b_1 = s_1$, by Assumption 2, we conclude $b^*(\delta) < b_1^D(\underline{v}, \delta)$. □

Proof of Propositions 4 and 5: Substituting $\sigma \sim U[-\sigma, \sigma]$ and $v^{\text{med}} \sim U[v^e - \alpha, v^e + \alpha]$, we obtain FG's interior offer, i.e., solving the first-order condition associated with (31):

$$b^* = \frac{\delta(4v_F(\alpha\theta + \overline{v} - \underline{v}) - 2\alpha(\overline{v} + \underline{v}) + (\overline{v} - \underline{v})(\overline{v} + \underline{v} - 2v^e)) - 4\alpha(2-\delta)\sigma}{4\delta(\alpha\theta + \alpha + \overline{v} - \underline{v})}. \tag{35}$$

We obtain that $\frac{\partial b^*}{\partial \overline{v}}$ may be written in the form $\frac{\partial b^*}{\partial \overline{v}} = \frac{\nu(\alpha, \underline{v}, \overline{v})}{\kappa}$, where $\kappa > 0$ and we express the dependence of the numerator only on the primitives that are used to establish our result. We conclude that b^* increases in $\overline{v}$ if and only if $\nu(\alpha, \underline{v}, \overline{v}) \geq 0$. Straightforward algebra establishes $\frac{\partial \nu(\alpha,\underline{v},\overline{v})}{\partial \overline{v}} = 2\delta(\overline{v} - \underline{v} + \alpha + \theta\alpha) > 0$. Thus, if $\nu(\alpha, \underline{v}, \overline{v}') \geq 0$, $\overline{v}'' > \overline{v}'$ implies $\nu(\alpha, \underline{v}, \overline{v}'') > 0$. We further find that $\frac{\partial^2 \nu(\alpha,\underline{v},\overline{v})}{\partial \alpha^2} = -4\delta(1+\theta) < 0$, and $\nu(0, \underline{v}, \overline{v}) = \delta(\underline{v} - \overline{v})^2 \geq 0$ for all $\overline{v} \in [\underline{v}, -s_1]$. We therefore obtain *at most* one strictly positive root, $\alpha(\overline{v})$, which solves $\nu(\alpha(\overline{v}), \underline{v}, \overline{v}) = 0$. Define $\overline{\alpha}_* \equiv \alpha(\underline{v})$ and $\overline{\alpha}^* \equiv \alpha(-s_1)$. Suppose, first, $\alpha < \overline{\alpha}_*$. Then, $\nu(\alpha, \underline{v}, \underline{v}) > 0$ and thus $\nu(\alpha, \underline{v}, \overline{v}) > 0$ for all $\overline{v} > \underline{v}$. Suppose, second, $\alpha > \overline{\alpha}^*$. Then, $\nu(\alpha, \underline{v}, -s_1) < 0$ and thus $\nu(\alpha, \underline{v}, \overline{v}) < 0$ for all $\overline{v} < -s_1$. Finally, if $\alpha \in [\overline{\alpha}_*, \overline{\alpha}^*]$, then $\nu(\alpha, \underline{v}, \underline{v}) > 0$, and $\nu(\alpha, \underline{v}, -s_1) < 0$. Since $\nu(\alpha, \underline{v}, \overline{v})$ strictly increases in $\overline{v}$, there exists a unique threshold, $\overline{v}^* \in [\underline{v}, -s_1]$, such that $\overline{v} < \overline{v}^*$ implies $\nu(\alpha, \underline{v}, \overline{v}) < 0$, and $\overline{v} > \overline{v}^*$ implies $\nu(\alpha, \underline{v}, \overline{v}) > 0$. The complementary result for changes in $\underline{v}$ when $v^e - \underline{v} \geq v_F - s_1$, follows a similar argument. Suppose, instead, $v^e - \underline{v} < v_F - s_1$. We may write $\frac{\partial b^*}{\partial \underline{v}} = \frac{\mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\kappa}$, where $\kappa > 0$. We show that if $v^e - \underline{v} < v_F - s_1$, then $\mu(\alpha, \underline{v}, \overline{v}, \delta, v^e) < 0$. Straightforward algebra establishes that $\frac{\partial \mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\partial \overline{v}} = 2\delta(\overline{v} - \underline{v} - 2\alpha)$, strictly decreasing in α. Substituting in Assumption 4 that $v^e + \alpha > \frac{\overline{v}+\underline{v}}{2} + v_F - s_1$, i.e., $\alpha > \frac{\overline{v}+\underline{v}}{2} + v_F - s_1 - v^e$ yields $\frac{\partial \mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\partial \overline{v}} < 0$ for all α satisfying Assumption 4 if $v^e - \underline{v} < v_F - s_1$, which holds by supposition. Then, it is sufficient to show that $\mu(\alpha, \underline{v}, \underline{v}, \delta, v^e) < 0$. $\mu(\alpha, \underline{v}, \underline{v}, \delta, v^e)$ is linear in δ, and $\mu(\alpha, \underline{v}, \underline{v}, 0, v^e) < 0$, so it is sufficient to show that $v^e - \underline{v} < v_F - s_1$ implies $\mu(\alpha, \underline{v}, \underline{v}, 1, v^e) < 0$, since $\mu(\alpha, \underline{v}, \underline{v}, 1, v^e)$ strictly increases in v^e. That $\mu(\alpha, \underline{v}, \underline{v}, 1, v_F - s_1 + \underline{v}) < 0$ follows by Assumption 3 that $\sigma + \underline{v} + s_1 > 0$ and $v_F > s_1$. $\square$

Supplemental Appendix: Extensions and Additional Results for "Reelection and Renegotiation"

Contents:

A. More Choices for Voters.

B. Domestic Pivotal Voter May Benefit from Limited Choice.

C. Retrospective Voting.

D. Domestic Politics and Prospects for Long-Term Agreements.

E. Domestic Government Holds Date-1 Bargaining Power.

F. Electoral Competition with Platform Commitments.

G. Other Dynamic Linkages.

H. Comparing Transfers with Exogenous and Endogenous Elections.

I. Inefficiency with Endogenous Turnover: an Example.

A. More Choices for Voters. Our base analysis supposes that domestic voters choose between a relatively *friendly* DG_2 with valuation $\overline{v}$, and a relatively *hostile* DG_2 with valuation $\underline{v}$. In this extension, we instead allow voters to choose any DG_2 with common knowledge project valuation $v_D^2 \in [\underline{v}, \overline{v}]$. For simplicity, we set $w = 0$, i.e., consider parties that are purely policy-motivated. We impose structure on preferences that ensures that FG typically values the project by more than DG_2, and that there is sufficient variation in the domestic preference shock λ that the joint surplus of FG and DG_2 can become positive or negative:

Assumption A1: $\underline{v} < \overline{v} < v_F$, $v_F - s_1 > 0$, $\overline{v} + s_1 < 0$, $\sigma > v_F + \overline{v}$, $-\sigma < \underline{v} + s_1$.

Assumption A1 says that (1) on average, FG has a higher project valuation than friendly DG_1, and the relatively friendly DG_1 has a higher project valuation than the relatively hostile DG_1, (2) that FG has a net positive relative value of the project at date 1 at the initial terms s_1 while either DG_1 has a net negative relative value of the project at date 1 at the initial terms s_1; but (3) there is sufficient uncertainty about the common shock λ to domestic preferences, that (a) it could exceed the expected surplus from the project between FG and DG_2 with valuation $\overline{v}$ that is most friendly to the project; but, alternatively (b) it could be even less than expected value to DG_2 with valuation $\underline{v}$ that is most hostile to the project from participating at the initial status quo s_1. All other aspects of our model are unchanged. Note that the analysis of date-2 policy outcomes is unchanged from our base setting.

We initially assume that v_D^2 is exogenously drawn from cumulative distribution $G(v_D^2)$ on support $[\underline{v}, \overline{v}]$, reflecting a benchmark in which the election outcome is insensitive to the negotiation outcome. The expected lifetime payoff of a domestic agent with date-1 project valuation v is:

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

where $f(\lambda)$ is the density of the domestic preference shock, λ. 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 denotes the project outcome at date 2; and b_2 denotes the date-two transfer from FG when the project is implemented at date 2, i.e., when $r_2 = 1$. The analogous expected payoff of FG with project valuation v_F is:

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

By a direct extension of the date-2 analysis in the base setting, the expected date-2 payoff of a domestic agent with date-1 project valuation v is,

$$V_D(v, s_2) = \int_{\underline{v}}^{\overline{v}} \int_{-(v_D^2+s_2)}^{\sigma} (v + s_2 + \lambda) f(\lambda)\, d\lambda\, dG(v_D^2)$$
$$+ \int_{\underline{v}}^{\overline{v}} \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda)\, d\lambda\, dG(v_D^2). \tag{A-1}$$

Likewise, the expected date-2 payoff of the foreign government FG with project valuation v_F given s_2 is

$$V_F(s_2) = \int_{\underline{v}}^{\overline{v}} \int_{-(v_D^2+s_2)}^{\sigma} (v_F - s_2) f(\lambda)\, d\lambda\, dG(v_D^2)$$
$$+ \int_{\underline{v}}^{\overline{v}} (1-\theta) \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v_D^2 + \lambda + v_F) f(\lambda)\, d\lambda\, dG(v_D^2). \tag{A-2}$$

At date 1, FG makes an offer b_1 to the domestic government DG_1 with valuation v_D^1. DG_1 accepts the offer, i.e., $r_1(b_1) = 1$, if and only if:

$$(1-\delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) \geq \delta V_D(v_D^1, s_1). \tag{A-3}$$

Thus, FG's date-1 proposal solves:

$$\max_{b_1 \geq s_1} \; (1-\delta) r_1(b_1)(v_F - b_1) + \delta V_F(r_1(b_1) b_1 + (1 - r_1(b_1)) s_1),$$

subject to the participation constraint that $r_1(b_1) = 1$ if (A-3) holds, and $r_1(b_1) = 0$, otherwise. We now extend Proposition 1 to a setting with a continuum of possible DG_2 valuations. The proof, along with proofs of all results stated in this section, appears at the end of this section.

Proposition A1. 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 transfer that satisfies (A-3).

The intuition is precisely as in the base two-party setting: let $\Delta(v_D^1, s_2)$ be the ex-ante expected date-2 surplus from the perspective of the date-1 bargaining parties, for any status quo s_2:

$$\Delta(v_D^1, s_2) = V_D(v_D^1, s_2) + V_F(s_2) = \int_{\underline{v}}^{\overline{v}} \int_{-(v_D^2+v_F)}^{\sigma} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda\, dG(v_D^2). \tag{A-4}$$

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 $b_1 \geq 0$,

$$\Delta(v_D^1, b_1) - \Delta(v_D^1, s_1) = 0.$$

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

$$(1-\delta)(v_D^1 + v_F) + \Delta(v_D^1, b_1) - ((1-\delta)0 + \Delta(v_D^1, s_1)) = (1-\delta)(v_D^1 + v_F), \qquad \text{(A-5)}$$

which implies once again that static and dynamic conditions for a date-1 agreement coincide.

Endogenous Power Transitions. We endogenize the date-2 domestic government DG_2 by having a pivotal domestic voter with project valuation v_{piv} (e.g., the median voter) select her most preferred representative, allowing the voter to choose any representative with valuation $v_D^2 \in [\underline{v}, \overline{v}]$, where the bounds $\underline{v}$ and $\overline{v}$ satisfy Assumption A1. This could reflect a setting with office-motivated parties that can commit to the pivotal voter's most-preferred platform.

When negotiating at date 1, the foreign and domestic governments may not perfectly know the pivotal voter's future preferences. We assume that, relative to the possible preferences of the domestic electorate, the set of available representatives is sufficiently large. We maintain the assumption that the pivotal voter's valuation is uniformly drawn on the interval $[v^e - \alpha, v^e + \alpha]$, imposing the following restriction on the support:

Assumption A2: (1) $v^e - \alpha - (v_F - s_1) > \underline{v}$ and (2) $v^e + \alpha < \overline{v}$.

In conjunction with Lemma A1, below, Assumption A2 ensures that the project valuation of the pivotal voter's preferred date-2 representative is contained in $(\underline{v}, \overline{v})$.

Let $V_D(v_{\text{piv}}, v_D^2, s_2)$ 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_D^2, and (3) the status quo transfer is s_2:

$$V_D(v_{\text{piv}}, v_D^2, s_2) = \int_{-(v_D^2+s_2)}^{\sigma} (v_{\text{piv}} + s_2 + \lambda) f(\lambda)\, d\lambda + \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v_{\text{piv}} - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda)\, d\lambda.$$

Given status quo agreement s_2, the pivotal voter's preferred date-1 representative solves:

$$\max_{v_D^2} V_D(v_{\text{piv}}, v_D^2, s_2).$$

With a uniform distribution over the preference shock, λ, the first-order condition yields:

Lemma A1. Given an inherited status quo agreement, $s_2 \geq s_1$, the domestic pivotal voter's preferred date-2 representative values the project by

$$v_D^2(s_2) = v_{\text{piv}} - (v_F - s_2). \tag{A-6}$$

This result also applies in our benchmark setting, but in that context voters are constrained to select between two parties. In the present setting, however, the pivotal voter is able to select her most preferred DG_2, which therefore varies smoothly with the first-period outcome s_2.

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 s_2 is:

$$\begin{aligned}\Delta(v_D^1, s_2) &= \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int_{-v_D^2(s_2)-v_F}^{\sigma} (v_D^1 + \lambda + v_F) f(\lambda)\, d\lambda\, dv_{\text{piv}} \\ &= \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int_{-v_{\text{piv}}-s_2}^{\sigma} (v_D^1 + \lambda + v_F) f(\lambda)\, d\lambda\, dv_{\text{piv}}.\end{aligned}$$

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:

$$\Delta(v_D^1, b_1) - \Delta(v_D^1, s_1) = \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int_{-v_D^2(b_1)-v_F}^{-v_D^2(s_1)-v_F} (v_D^1 + \lambda + v_F) f(\lambda)\, d\lambda\, dv_{\text{piv}}. \tag{A-7}$$

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 denotes the expectation of the pivotal voter's future project valuation, from the perspective of the date-1 negotiating parties.

Lemma A2. The relative total date-2 surplus from an agreement is a single-peaked function of the date-1 transfer b_1, with unique maximum:

$$b^* \equiv v_D^1 + v_F - v^e. \tag{A-8}$$

To understand the result, note that the transfer b_1 that maximizes the expected date-2 surplus from an agreement, (A-7), 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.

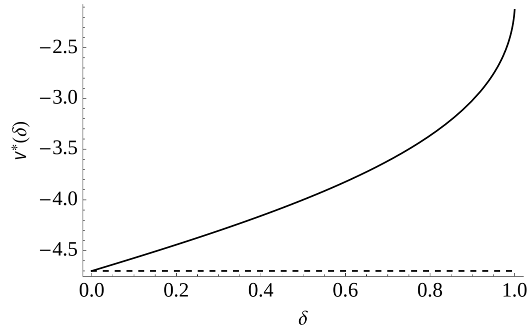
The date-1 transfer also determines the size of the expected date-2 surplus. This creates a *second* dynamic conflict between *both* governments and the domestic electorate. FG benefits from more generous agreements, which steer the electorate in favor of appointing a more pliant DG_2. This imperative becomes more urgent when the pivotal voter is expected to be more hostile, i.e., when v^e is lower, raising its willingness to make more generous transfers. In turn, DG_1's derived valuation of higher transfers depends on how it is aligned with the domestic electorate.

If DG_1 expects to view the project favorably relative to its electorate, i.e., if $v_D^1 - v^e$ is positive and large, this domestic mis-alignment *raises* the alignment between DG_1 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.

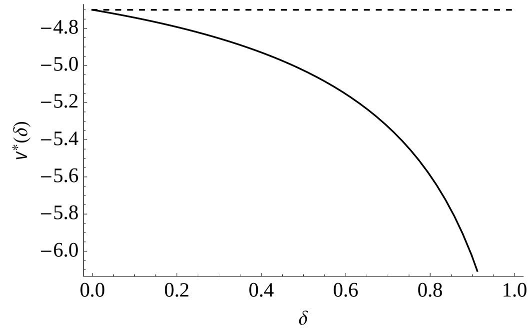
If, instead, DG_1 expects to be far more hostile to the project than its voters, i.e., if $v_D^1 - v^e$ is negative and large, the governments are in conflict over the attitude of the domestic government's successor. FG is less inclined to make generous offers, knowing that the electorate is already likely to appoint a more project-friendly successor. Moreover, DG_1 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 DG_1 would want to quit.

The scope for agreements to raise expected date-2 surplus thus hinges on the prospect that DG_1 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 relative to the date-1 surplus. 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* relative to the static surplus. 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 A2. There exists a threshold $v^*(v^e, \delta) < 0$, strictly increasing in the expected valua-



(a) $v^e = 4$



(b) $v^e = -4$

Figure 1 – Illustration of how the threshold $v^*(v^e, \delta)$ varies with δ. Parameters: $v_F = 4.7$, $\theta = .6$, $s_1 = 0$, $\sigma = 10$. The dashed line represents $v^*(v^e, 0) = -v_F$: if and only if $v_D^1 \geq v^*(v^e, 0)$, 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.

tion of the domestic pivotal voter, v^e, such that if and only if the date-one domestic government is not too hostile to the project, i.e., $v_D^1 \geq v^*(v^e, \delta)$, 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_1 grows. When δ 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 $v^*(v^e, 0) = -v_F$, 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_1 sharpens, so when they weigh date-2 outcomes more heavily, the threshold $v^*(v^e, \delta)$ *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_2 that will maintain the agreement. Relative to the static conflict of interest between FG and DG_1, their dynamic conflict softens: as the governments grow more concerned with date-2 outcomes, the threshold $v^*(v^e, \delta)$ *decreases*: a concern for future outcomes raises the prospects of a date-1 agreement, allowing even a statically mis-aligned FG and DG_1 to implement the joint project.[1]

Our benchmark showed that when election outcomes are unrelated to date-2 negotiations, DG_1 appropriates none of the expected discounted lifetime surplus from implementing the project. In contrast, we now show that if election outcomes are responsive to negotiation outcomes—if the support σ over domestic preference shocks λ 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 A3. When the support σ on domestic preference shocks λ is not too large, the pivotal voter's expected project valuation v^e is not too large, and agents place sufficient weight δ on date-two outcomes, there exists a threshold $v^{**}(v^e,\delta) \in (v^*(v^e,\delta),0)$ such that if $v_D^1 \in [v^*(v^e,\delta), v^{**}(v^e,\delta)]$, FG offers the smallest date-one transfer that induces DG_1 to implement the project; but if $v_D^1 > v^{**}(v^e,\delta)$, 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:

$$-\delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}\theta(v_F - b_1^*)\frac{\partial}{\partial b_1} F(-v_D^2(b_1) - b_1)|_{b_1=b_1^*}\, dv_{\text{piv}} - \delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}(1 - F(-v_D^2(b_1^*) - b_1^*))\, dv_{\text{piv}}$$
$$+ \delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}(1-\theta) \int_{-v_D^2(b_1^*)-v_F}^{-v_D^2(b_1^*)-b_1^*} \left.\frac{\partial v_D^2(b_1)}{\partial b_1}\right|_{b_1=b_1^*} f(\lambda)\, d\lambda\, dv_{\text{piv}} \;=\; 1-\delta. \tag{A-9}$$

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 λ 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 θ) 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 λ exceeds $-v_D^2 - b_1^*$. This intensive margin provides an incentive for

[1] The threshold $v^*(v^e,\delta)$ is not, in general, monotonic in δ.

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 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_2 due to its less demanding participation constraint.

Finally, the right-hand side of (A-9) 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

$$b_1^* = \frac{\delta(v_F(2+\theta) - v^e + \sigma) - 2\sigma}{\delta(3+\theta)}. \tag{A-10}$$

The following is immediate.

Corollary A1. When the domestic pivotal voter is expected to be more opposed to the project, i.e., when v^e is more negative, or the probability θ 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_2 (via a *lower* $v_D^2(b_1)$). 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_2 would wish to renegotiate, FG responds by offering more generous initial terms.

When DG_2 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_2 is prepared to walk away from the agreement, a higher θ 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.

Comparison with Two-Party Benchmark: 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 A2 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. 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.

Proof of Proposition A1. We first verify necessary and sufficient conditions for the project to be implemented at date 1. DG_1's relative value of agreement,

$$(1-\delta)(v_D^1+b_1)+\delta(V_D(v_D^1,b_1)-V_D(v_D^1,s_1)) \tag{A-11}$$

is convex in b_1; $\delta\in[0,1)$, and $v_D^1+s_1<0$ implies there is at most one $b_D(v_D^1)\in(s_1,v_F]$ such that DG_1's relative value of agreement is positive if and only if $b_1\geq b_D(v_D^1)$. 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 $b_D(v_D^1)\leq b_F$, which is equivalent to $v_F+v_D^1\geq 0$. This proves the first claim. We next show that if $v_D^1+v_F\geq 0$, FG appropriates the total relative surplus from an agreement. Fix DG_1's strategy $r_1(b_1)=1$ if and only if $b_1\geq b_D$. FG prefers to make an offer $b_1>b_D(v_D^1)$ if and only if

$$(1-\delta)(v_F-b_1)+\delta V_F(b_1)\ \geq\ (1-\delta)(v_F+v_D^1)+\delta V_F(s_1), \tag{A-12}$$

while $b_1>b_D(v_D^1)$ implies that DG_1 strictly prefers to accept:

$$(1-\delta)(v_D^1+b_1)+\delta V_D(v_D^1,b_1)\ >\ \delta V_D(v_D^1,s_1). \tag{A-13}$$

Letting $\Delta(v_D^1)=\int_{\underline{v}}^{\overline{v}}\int_{-(v_D^2+v_F)}^{\sigma}(v_D^1+\lambda+v_F)f(\lambda)\,d\lambda\,dG(v_D^2)$, (A-13) can be written $(1-\delta)(v_D^1+b_1)+\delta\Delta(v_D^1)-\delta V_F(b_1)>\delta\Delta(v_D^1)-\delta V_F(s_1)$. Combining this with (A-12) yields $\delta(V_F(b_1)-V_F(s_1))<(1-\delta)(v_D^1+b_1)\leq\delta(V_F(b_1)-V_F(s_1))$, a contradiction. $\square$

Proof of Lemma A1. Immediate after substituting $\lambda\sim U[-\sigma,\sigma]$. $\square$

Proof of Proposition A2. The expected date-2 payoff to DG_1 with valuation v_D^1 is:

$$V_D(v_D^1,s_2)\ =\int_{v^e-\alpha}^{v^e+\alpha}\frac{1}{2\alpha}\int_{-(v_D^2(s_2)+s_2)}^{\sigma}(v+\lambda+s_2)f(\lambda)\,d\lambda\,dv_{\text{piv}} \tag{A-14}$$

$$+ \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int_{-(v_D^2(s_2)+v_F)}^{-(v_D^2(s_2)+s_2)} (v - v_D^2(s_2) + \theta(v_D^2(s_2) + \lambda + v_F)) f(\lambda)\, d\lambda\, dv_{\text{piv}}.$$

DG$_1$ prefers $r_1(b_1) = 1$ if and only if $(1-\delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) - \delta V_D(v_D^1, s_2) \geq 0$, 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^e. Thus, there is at most one $b_D(v_D^1, \delta) \in (0, v_F]$ 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 standing offer s_2 is:

$$V_F(s_2) = \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int_{-(v_D^1(s_2)+s_2)}^{\sigma} (v_F - s_2) f(\lambda)\, d\lambda\, dv_{\text{piv}}$$
$$+ \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}(1-\theta) \int_{-(v_D^1(s_2)+v_F)}^{-(v_D^1(s_2)+s_2)} (v_F + v_D^1(s_2) + \lambda) f(\lambda)\, d\lambda\, dv_{\text{piv}}. \quad \text{(A-15)}$$

If $r_1(b_1) = 1$, the foreign government's date-1 relative value of agreement is $(1-\delta)(v_F - b_1) + \delta(V_F(b_1) - V_F(s_1))$, where this value is (v) concave in b_1, (vi) strictly positive evaluated at $b_1 = s_1$, (vii) weakly negative evaluated at $b_1 = v_F$, (viii) strictly decreases in $v^e \equiv \mathbb{E}[v_{\text{piv}}]$, and (ix) constant in v_D^1. We conclude that there exists $b_F(v^e, \delta) \in (s_1, v_F]$, such FG's relative value of agreement is positive if and only if $b_1 \leq b_F$. Combining (iii), (ix), $b_D(\min\{\frac{1}{2}v_F\theta - \sigma, -v_F\}, \delta) \geq v_F \geq b_F(v^e, \delta)$, and (by straightforward algebra) $b_D(-s_1, \delta) < b_F(v^e, \delta)$ yields $v^*(\delta, v^e) < 0$ such that $b_D(v_D^1, \delta) \leq b_F(v^e, \delta)$ if and only if $v_D^1 \geq v^*$, where $v^*(\delta, v^e)$ *increases* in v^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 (A-10). b_1^* strictly increases in δ and $b_1^* > 0$ if and only if $\delta > \delta^* \equiv \frac{2\sigma}{v_F(2+\theta)+\sigma-v^e-s_1(3+\theta)}$, where $\delta^* < 1$ if and only if $\sigma < v_F(1+\theta) - s_1(3+\theta) + v_F - v^e \equiv \hat{\sigma}$. Suppose, then, $\sigma < \hat{\sigma}$. DG$_1$'s expected relative payoff from choosing $r_1(b_1^*) = 1$ is continuous and strictly increasing in v_D^1; evaluated at $v_D^1 = -s_1$, its expected relative payoff is $(1-\delta)(-s_1 + b_1^*) + \delta(V_D(-s_1, b_1^*) - V_D(-s_1, -s_1))$, which is strictly concave in δ; straightforward algebra yields two roots: δ^* and $\delta' > \delta^*$. We have shown $\sigma < \hat{\sigma}$ implies $\delta^* < 1$. We have $\delta' \geq 1$ if $v^e \leq \frac{s_1\theta(\theta+3) - v_F\left(\theta^2+4\theta+2\right)+\sigma(\theta+4)}{\theta+2}$. When these conditions hold, $\delta > \delta^*$ implies that $b^*(\delta)$ is offered by FG and accepted by DG$_1$. $\square$

B. 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, as in the previous Supplemental Appendix A, and one in which she is forced to select *either* the friendly party (with valuation $\overline{v}$) *or* the hostile party (with valuation $\underline{v}$), as in our benchmark presentation. We show how the pivotal voter may benefit from being constrained. We suppose that the pivotal voter at date 1 has project valuation v^e, and anticipates that her interim valuation (between dates 1 and 2) is v_{piv}, drawn uniformly from $[v^e - \alpha, v^e + \alpha]$. We evaluate her date-1 (total discounted) expected payoffs.[2] To fix ideas, suppose the date-1 domestic government has project valuation $\overline{v}$, and we set $w = 0$.

When the pivotal voter may freely select her date-2 representative, the previous section of this Supplemental Appendix showed that her most-preferred representative solves:

$$\max_{v_D^2 \in \mathbb{R}} V(v_{\text{piv}}, v_D^2, s_2) \tag{A-16}$$

where

$$V(v, v_D^2, s_2) = \int_{-(v_D^2+s_2)}^{\sigma} (v + \lambda + s_2) f(\lambda)\, d\lambda + \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda)\, d\lambda.$$

We learn from Lemma that the unique solution to (A-16) is:

$$\hat{v}(s_2) = v_{\text{piv}} - (v_F - s_2). \tag{A-17}$$

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

$$\max_{v_D^2 \in \{\underline{v}, \overline{v}\}} V(v_{\text{piv}}, v_D^2, s_2). \tag{A-18}$$

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

$$v_{\text{piv}} \le \frac{\underline{v} + \overline{v}}{2} + (v_F - s_2). \tag{A-19}$$

Suppose that parameters are such that, in both settings, DG_1 with valuation $\overline{v}$ 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

[2] 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.

her date-1 representative ("No Constraint"). Thus, b_1^{NC} solves

$$(1-\delta)(\overline{v}+b_1^{NC})+\delta\int_{v^e-\alpha}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})\,dv_{\text{piv}}=\delta\int_{v^e-\alpha}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},v_{\text{piv}}-v_F,s_1)\,dv_{\text{piv}}.$$

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:

$$\begin{aligned}
& (1-\delta)(\overline{v}+b_1^C)+\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}V_D(\overline{v},\underline{v},b_1^C)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},\overline{v},b_1^C)\,dv_{\text{piv}} \\
= \quad & (1-\delta)0 \qquad\quad +\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-s_1}\frac{1}{2\alpha}V_D(\overline{v},\underline{v},s_1)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-s_1}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},\overline{v},s_1)\,dv_{\text{piv}}.
\end{aligned} \tag{A-20}$$

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

$$(1-\delta)(v^e+b_1^{NC})+\delta\int_{v^e-\alpha}^{v^e+\alpha}\frac{1}{2\alpha}V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})\,dv_{\text{piv}}, \tag{A-21}$$

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

$$(1-\delta)(v^e+b_1^C)+\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}V_D(v_{\text{piv}},\underline{v},b_1^C)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}V_D(v_{\text{piv}},\overline{v},b_1^C)\,dv_{\text{piv}}. \tag{A-22}$$

Expression (A-22) is greater than (A-21) if and only if:

$$\begin{aligned}
b_1^C-b_1^{NC} \quad \geq \quad & \frac{\delta}{1-\delta}\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}\Big(V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})-V_D(v_{\text{piv}},\underline{v},b_1^C)\Big)\,dv_{\text{piv}} \\
+ \quad & \frac{\delta}{1-\delta}\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}\Big(V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})-V_D(v_{\text{piv}},\overline{v},b_1^C)\Big)\,dv_{\text{piv}}.
\end{aligned} \tag{A-23}$$

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 (A-23) holds for a set of benchmark parameters. We fix $v_F = 4$, $\sigma = 8.3$, $\theta = 1$, $\delta = .7$, $\underline{v} = -6$, $s_1 = 0$, and $\alpha = 2.5$, leaving v^e and $\overline{v}$ as free parameters. The shaded area of Figure 2 identifies pairs $(v^e, \overline{v})$ for which the inequality (A-23) is satisfied.

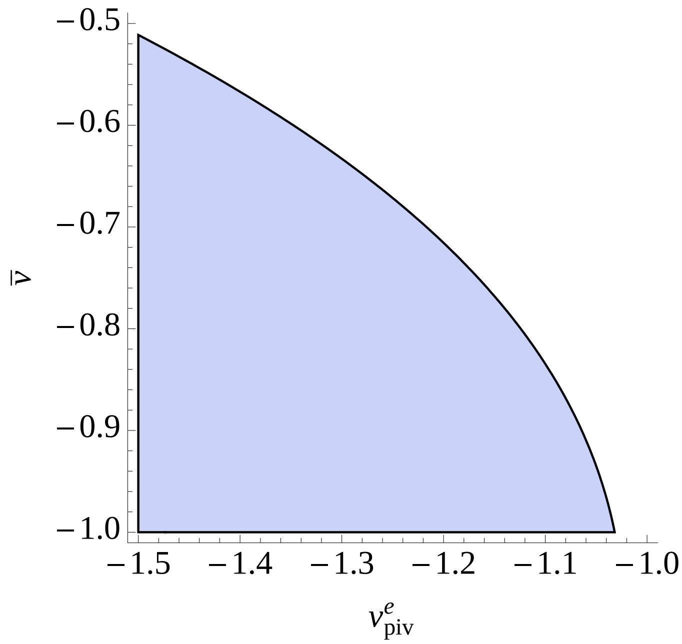


Figure 2 – The shaded area denotes pairs $(v^e, \overline{v})$ such that domestic pivotal voter prefers a system of limited choice, i.e., expression (A-23) holds. Parameters: $\delta = .7$, $v_F = 4$, $\theta = 1$, $\sigma = 8.3$, $\underline{v} = -6$, $s_1 = 0$, and $\alpha = 2.5$.

Fixing the project valuation of the friendly party $\overline{v}$, 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., when v^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^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., when $\overline{v}$ 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 $\overline{v}$ 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, because 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., when $\overline{v}$ 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.

C. 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 severe 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 highlight the consequences of this behavior, we suppose that a pivotal domestic voter with valuation v_{piv} uniformly drawn on $[v^e - \alpha, v^e + \alpha]$ 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 $v^e + v_F > 0$, and to avoid unedifying cases, we scale a and $\beta > 0$ so that $a + \beta v^e > 0$ and $a + \beta(v^e + v_F) < 1$. The parameter β captures the salience of the international negotiation in the domestic elections. For simplicity, we fix $s_1 = 0$, so that $s_2 = r_1 b_1$. FG's offer to a date-1 domestic government with valuation $v \in \{\underline{v}, \overline{v}\}$ solves:

$$\begin{aligned} \max_{b_1 \geq 0} \; (1-\delta) r_1(b_1)(v_F - b_1) &+ \delta R(r_1(v^e + b_1)) V_F(v, b_1 r_1(b_1)) \\ &+ \delta(1 - R(r_1(v^e + b_1))) V_F(v', b_1 r_1(b_1)), \end{aligned} \tag{A-24}$$

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

$$\begin{aligned} (1-\delta)(v_D^1 + b_1) + \delta R(v^e + b_1)[V_D(v_D^1, v, b_1) + w] + (1 - R(v^e + b_1)) V_D(v_D^1, v', b_1) \\ \geq \delta R(0)[V_D(v_D^1, v, 0) + w] + (1 - R(0)) V_D(v_D^1, v', 0), \end{aligned} \tag{A-25}$$

where v' is the valuation of the party that does *not* hold date-1 domestic power. We establish an analogue to Proposition 2, providing conditions under which a hostile incumbent either fails to secure an initial agreement, or is instead held to its participation constraint.

Proposition C1. 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

$$\beta(\overline{v} - \underline{v}) > \frac{1+\theta}{2}, \tag{A-26}$$

then either (1) no agreement is signed, or (2) the agreement is the smallest that secures the hostile government's participation, i.e., satisfies (A-25).

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., β increases) and (2) FG's value from ensuring the fall of the incumbent rises (i.e., $\overline{v} - \underline{v}$ 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 C1. For any $\delta > 0$, if $\beta(\overline{v} - \underline{v}) > \frac{1+\theta}{2}$, there exists $\overline{w}$ such that if $w > \overline{w}$ (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.

When $\beta(\overline{v} - \underline{v}) > \frac{1+\theta}{2}$, any agreement between FG and hostile DG_1 involves the smallest possible transfer that induces the hostile government's participation. With retrospective voting, DG_1 enjoys a higher prospect of reelection whenever the transfer from the foreign government gives the (expected) pivotal voter a strictly higher value from the project than from no project, i.e., $v^e + b_1 > 0$. In contrast with prospective voting, this is true regardless of the identity of DG_1. As office-holding motives become overwhelmingly important for the domestic political parties, they become more willing to accept any agreement that increases their chances of reelection, which implies that their participation constraints converge. Thus, when $w > 0$ is sufficiently large, whenever the friendly government receives a strictly positive rent, i.e., a transfer that strictly exceeds the minimum required to induce its participation (note: FG's objective is strictly concave, and an interior solution does not depend on w), a hostile DG_1 that secures only that needed to induce its participation must receive a less generous offer. And since FG values the reelection of friendly DG_1—which is achieved with larger offers—there are primitives for which its most preferred offer is strictly larger than that needed to secure the friendly government's participation. Note that the conditions in the Corollary are sufficient, but not necessary, for the friendly party to secure a higher transfer.

Proof of Proposition C1. When (A-26) holds, straightforward algebra establishes that FG'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 $b_1 \leq b_F$. Turning to hostile DG_1's participation constraint, straightforward algebra establishes that under condition (A-26), the LHS of (A-25) evaluated at $v_D^1 = \underline{v}$ is strictly negative evaluated at $b_1 = 0$ and strictly concave in b_1. Moreover, its partial derivative with respect to b_1 is:

$$(1-\delta) + \delta \frac{\partial}{\partial b_1} R(v^e + b_1)(w + V_D(\underline{v}, \underline{v}, b_1) - V_D(\underline{v}, \overline{v}, b_1)) \\ + R(v^e + b_1)\frac{\partial}{\partial b_1} V_D(\underline{v}, \underline{v}, b_1) + (1 - R(v^e + b_1))\frac{\partial}{\partial b_1} V_D(\underline{v}, \overline{v}, b_1). \quad \text{(A-27)}$$

Substituting in $\sigma \sim U[-\sigma, \sigma]$, we find that this expression is strictly positive evaluated at $b_1 = v_F$ if $\underline{v} + v_F + \sigma > 0$, which holds under Assumption 3, so that the difference of the LHS and RHS of (A-25) strictly increases in $b_1 \in [0, v_F]$. We conclude that there exists at most one threshold $b_D(\underline{v}, w) \in (0, v_F)$ such that (A-26) is satisfied if and only if $b_1 \geq b_D(\underline{v}, w)$. Thus, $b_D(\underline{v}, w) > b_F$ implies no agreement is signed at date 1. If, instead, $b_D(\underline{v}, w) \leq b_F$, FG strictly prefers the offer b_F, since its payoff strictly decreases in $b_1 \in [0, b_F]$. $\square$

Proof of Corollary C1. By the previous proposition, if $\beta(\overline{v} - \underline{v}) > \frac{1+\theta}{2}$, and an agreement is reached with hostile DG_1, it is the smallest offer that satisfies hostile DG_1's participation constraint, i.e., $b_D(\underline{v}, w)$. It is easy to verify that (1) $\lim_{w \to \infty} |b_D(\overline{v}, w) - b_D(\underline{v}, w)| = 0$, where $b_D(\overline{v}, w)$ is the corresponding transfer that solves friendly DG_1's participation constraint, and (2) FG's objective (A-24) evaluated at $v = \overline{v}$ and $v' = \underline{v}$ is strictly concave in b_1. Thus, if w is sufficiently large, then a transfer $b^*(\overline{v})$ that solves the associated first-order condition and further yields a positive surplus to friendly DG_1, i.e., satisfies $b^*(\overline{v}) > b_1^D(\overline{v}, w)$, also satisfies $b^*(\overline{v}) > b_1^D(\underline{v}, w)$. $\square$

D. Domestic Politics and Prospects for Long-Term Agreements. In our core, two-party setting, suppose that the hostile party grows less opposed to the project in the sense that $\underline{v}$ 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*, by way of an example.

The probability that the project is implemented at date 2 given status quo offer $b_1 \geq s_1$ is:

$$\Pr(v^{\text{med}} \leq \hat{v}(b_1))(1 - F(-(\underline{v} + v_F))) + \Pr(v^{\text{med}} > \hat{v}(b_1))(1 - F(-(\overline{v} + v_F)). \tag{A-28}$$

If $v^{\text{med}} \leq \hat{v}(b_1)$, 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, $v^{\text{med}} > \hat{v}(b_1)$, 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 $\overline{v} + \lambda + v_F \geq 0$, which occurs with probability $1 - F(-(\overline{v} + v_F))$.

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, and suppose $r_1(b_1^*) = 1$. Let $P(\hat{v}(b_1)) = \Pr(v^{\text{med}} \leq \hat{v}(b_1))$ denote the probability that the hostile party is elected in between dates 1 and 2, given standing offer b_1. The derivative of the probability of a date-2 agreement (A-28) with respect to $\underline{v}$ is:

$$\begin{aligned} &P(\hat{v}(b_1^*))f(-(\underline{v} + v_F)) \\ &\qquad - \left.\frac{\partial P(\hat{v})}{\partial \hat{v}}\right|_{\hat{v}=\hat{v}(b_1^*)} \left(\frac{\partial \hat{v}(b_1^*)}{\partial \underline{v}} + \left.\frac{\partial \hat{v}(b_1)}{\partial b}\right|_{b_1=b_1^*} \frac{db_1^*}{d\underline{v}}\right)(F(-(\underline{v} + v_F)) - F(-(\overline{v} + v_F))). \end{aligned} \tag{A-29}$$

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,

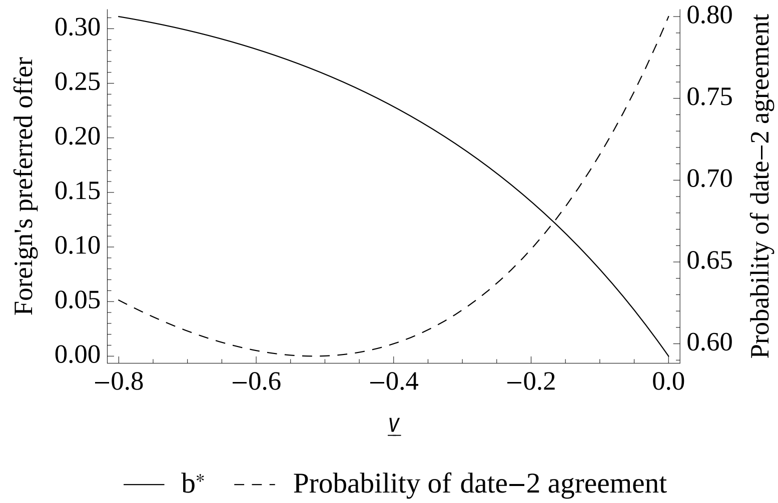


Figure 3 – How the probability of a date-2 agreement changes when the *hostile* party becomes more favorable to reform. Parameters are: $\overline{v} = 0$, $\sigma = .8$, $v_F = .8$, $v^e = .3$, $\delta = 1$, $\theta = 1$, $w = 1$, $s_1 = 0$ and $\alpha = \frac{1}{2}$.

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 $\underline{v}$ 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 $\frac{\partial \hat{v}(b_1^*)}{\partial \underline{v}} = \frac{1}{2}$, 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.

With uniform uncertainty over the domestic preference shock (λ) and the pivotal voter (v^{med}), (A-29) simplifies to

$$\frac{1}{(2\alpha)(2\sigma)}\left(\hat{v}(b_1^*) - (v^e - \alpha) - \left(\frac{1}{2} - \frac{db_1^*}{d\underline{v}}\right)(\overline{v} - \underline{v})\right).$$

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., when $P(\hat{v}(b_1^*))$ is small. In turn, this is more likely when (1) the gap $\overline{v} - \underline{v}$ is large and (2) v^e is not too negative. A higher $\overline{v} - \underline{v}$ 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 obtain for changes in the friendly party's preferences: raising its already relatively favorable attitude toward the project ($\overline{v}$) may *reduce* the prospect of a long-term agreement by pushing voters toward the hostile party, raising the prospect that the hostile party holds office.

E. 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 results change if, instead, DG_1 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 E1. (*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 of Proposition E1. The case $\delta = 0$ is trivial. Consider, instead, $\delta > 0$. DG_1's relative value from an agreement with transfer b_1 is

$$\begin{aligned}&(1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)\Big[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, b_1)\Big] \\ &-(1-\delta)0 \qquad\quad - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)\Big[\mathbf{1}[v_D^2 = v_D^1]w + V_D(v_D^1, v_D^2, s_1)\Big]. \end{aligned} \tag{A-30}$$

This expression is strictly convex in $b_1 \geq s_1$, and strictly negative evaluated at $b_1 = s_1$ for any $\delta \in [0, 1)$ under Assumptions 1 and 2, so that there exists at most one $b_D(v_D^1) > s_1$ such that (5) is weakly positive if and only if $b_1 \geq b_D(v_D^1)$. Likewise, FG's relative value of an agreement with transfer b_1 is

$$(1-\delta)(v_F - b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)V_F(v_D^2, b_1) - (1-\delta)0 - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)V_F(v_D^2, s_1), \tag{A-31}$$

which is strictly concave, and which it is easy to show admits a unique $b_F \in (s_1, v_F)$ such that (A-31) is non-negative if and only if $b_1 \leq b_F$. We conclude that a transfer that generates a weakly positive relative value of agreement for both DG_1 and FG exists if and only if $b_D(v_D^1) \leq b_F$, which is equivalent to $(1-\delta)(v_D^1 + v_F)$. Since (A-30) is strictly convex, for any $\delta > 0$, DG_1's value from an agreement with transfer b_1 is strictly increasing in $b_1 \geq b_D(v_D^1)$, so that DG_1's optimal offer whenever $b_D(v_D^1) \leq b_F$ is b_F, i.e., the transfer equating (A-31) with zero. □

Endogenous Transitions. Consider, now, the setting in which the domestic pivotal voter freely chooses the identity of her date-2 domestic government. We extend Propositions 3 and 2 in the main text to a setting in which the domestic government makes the date-1 offer.

Proposition E2 (*Domestic Government Makes Date-1 Offer*). Suppose DG_1 makes the date-1 offer to FG. If DG_1 is friendly, parts (1) and (2) of Proposition 3 apply; moreover, whenever a date-1 agreement is signed, friendly DG_1 retains all of the surplus from agreement. If DG_1 is hostile, parts (1) and (2) of Proposition 2 apply; moreover, whenever a date-1 agreement is signed, hostile DG_1 retains all of the surplus from agreement.

Proof of Proposition E2. Straightforward extension of Proposition E1. □

F. Electoral Competition with Platform Commitments.[3] Our benchmark presentation assumes that the parties cannot commit to their bargaining postures between dates. That is, the friendly party is pre-committed to negotiating with bargaining posture $\overline{v}$ at date 2, and the hostile party is pre-committed to bargaining posture $\underline{v}$.

We now modify this assumption by supposing that, between dates 1 and 2 but *before* v^{med} is realized, the friendly and hostile parties simultaneously commit to bargaining postures (i.e., 'platforms') $v \in [v_L, v_H]$. The interpretation is that, if elected, a party that commits to a bargaining posture v will negotiate as if it had intrinsic value v. A bargaining posture thus serves as an electoral platform. We do not derive date-1 negotiation outcomes, focusing instead on the strategic platform choices of parties between dates 1 and 2 for a given status quo s_2.

We assume $v_L < \underline{v} < \overline{v} < v_H$, and for simplicity, we set $w = 0$, i.e., we focus on a setting in which parties are purely policy-motivated. The assumption $v_L < \underline{v}$ allows the hostile party with value $\underline{v}$ to commit to a bargaining posture that is more hostile than its intrinsic attitude to the project, and the assumption $v_H > \overline{v}$ allows the friendly party with value $\overline{v}$ 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, λ, by assuming $\sigma > v_F + v_H$ and $-\sigma < v_L$. Finally, we assume that $v^e \in (\underline{v}, \overline{v})$, i.e., the median voter's expected value from the project lies strictly between the project values of the two parties.

Proposition F1. Given a status quo s_2, the hostile party commits to a platform $\underline{v}'$ and the friendly party commits to a platform $\overline{v}'$ satisfying:

$$\underline{v} - (v_F - s_2) < \underline{v}' < \overline{v}' < \overline{v} - (v_F - s_2). \tag{A-32}$$

A precise characterization of the platforms is given in the proof. To interpret the conditions in (A-32), recall that when the status quo offer is s_2, the most preferred negotiating posture of a party with value $v \in \{\underline{v}, \overline{v}\}$ in between dates is $v - (v_F - s_2)$. The proposition reveals 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, as in a classical Calvert-Wittman framework. Figure 4 illustrates equilibrium platforms for a context in which the hostile party's value $\underline{v}$ and the friendly party's value $\overline{v}$ are located on opposite sides of, and equidistant from the expected pivotal voter's value v^e. The parties commit to bargaining postures that are equidistant from the expected pivotal voter's most preferred bargaining posture $v^e - (v_F - s_2)$.

[3] We thank Gilat Levy, who suggested this extension.

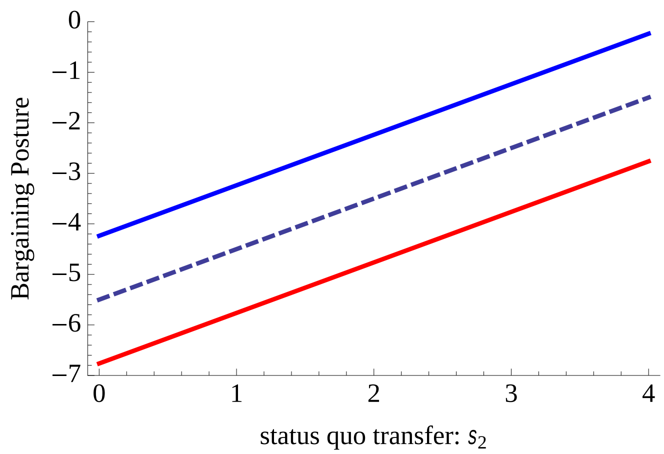


Figure 4 – Equilibrium bargaining postures for the friendly (*blue*) and hostile (*red*) parties, with the expected location of the pivotal voter's most preferred bargaining posture (*dashed*), as a function of the date-2 status quo transfer s_2. Parameters are: $\overline{v} = 0$, $\underline{v} = -3$, $v^e = -1.5$, $v_F = 4$, $\sigma = 8$, $\delta \in [0, 1]$, $\theta = 1$ and $\alpha = 8$.

Proof of Proposition F1. We have that for any platforms v and v', satisfying $v < v'$, the probability with which the party offering platform v is elected is:

$$P(v, v', s_2) = \int_{v^e-\alpha}^{\frac{v+v'}{2}+v_F-s_2} \frac{1}{2\alpha} \, dv^{\text{med}}. \tag{A-33}$$

We first claim that in equilibrium, the hostile party with value $\underline{v}$ chooses a platform $\underline{v}'$ and the friendly party with value $\overline{v}$ chooses a platform $\overline{v}'$ satisfying $\underline{v}' \leq \overline{v}'$. Suppose, to the contrary, that there exists an equilibrium in which $\underline{v}' > \overline{v}'$. If $\underline{v}' > \max\{\underline{v} - (v_F - s_2), \overline{v}'\}$, the hostile party can profitably deviate to $\max\{\underline{v} - (v_F - s_2), \overline{v}'\}$. Thus, $\underline{v}' \leq \max\{\overline{v}', \underline{v} - (v_F - s_2)\}$. This, together with the supposition $\underline{v}' > \overline{v}'$, yields $\overline{v}' < \underline{v} - (v_F - s_2)$. However, this and the supposition $\underline{v}' > \overline{v}'$ implies that the friendly party can profitably deviate to platform $\underline{v} - (v_F - s_2)$. Therefore, in equilibrium, $\underline{v}' \leq \overline{v}'$. Similarly, it is easy to show that $\underline{v} - (v_F - s_2) \leq \underline{v}'$ and $\overline{v}' \leq \overline{v} - (v_F - s_2)$. Therefore, in equilibrium, the platform $\underline{v}'$ chosen by hostile party with value $\underline{v}$ solves

$$\max_{\underline{v}' \in [v_L, v_H]} \; P(\underline{v}', \overline{v}', s_2) V_D(\underline{v}, \underline{v}', s_2)) + (1 - P(\underline{v}', \overline{v}', s_2)) V_D(\underline{v}, \overline{v}', s_2), \tag{A-34}$$

where

$$V_D(v, \tilde{v}, s_2) = \int_{-(\tilde{v}+s_2)}^{\sigma} (v + s_2 + \lambda) f(\lambda) \, d\lambda + \int_{-(\tilde{v}+v_F)}^{-(\tilde{v}+s_2)} (v - \tilde{v} + \theta(\tilde{v} + \lambda + v_F)) f(\lambda) \, d\lambda, \tag{A-35}$$

is the expected date-2 payoff of a domestic agent with value v when DG_2 negotiates with bargaining posture $\tilde{v}$—i.e., its strategy is the one that would be chosen by an agent with intrinsic value $\tilde{v}$. Similarly, the platform $\overline{v}'$ of the friendly party with value $\overline{v}$ solves

$$\max_{\overline{v}' \in [v_L, v_H]} \; P(\underline{v}', \overline{v}', s_2) V_D(\overline{v}, \underline{v}', s_2) + (1 - P(\underline{v}', \overline{v}', s_2)) V_D(\overline{v}, \overline{v}', s_2). \tag{A-36}$$

The first-order condition for $\underline{v}'$ is:

$$\frac{1}{2\alpha} \frac{1}{2} (V_D(\underline{v}, \underline{v}', s_2) - V_D(\underline{v}, \overline{v}', s_2)) + P(\underline{v}', \overline{v}', s_2) \frac{\partial V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'} = 0. \tag{A-37}$$

which defines a unique (interior) solution if

$$\frac{1}{2\alpha} \frac{\partial V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'} + P(\underline{v}', \overline{v}', s_2) \frac{\partial^2 V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'^2} < 0, \tag{A-38}$$

where the inequality follows from (1) $\underline{v}' \geq \underline{v} - (v_F - s_2)$ and (2) $V(v, \tilde{v}, s_2)$ is strictly concave in $\tilde{v}$. Similarly, the first-order condition

$$\frac{1}{2\alpha} \frac{1}{2} (V_D(\overline{v}, \underline{v}', s_2) - V_D(\overline{v}, \overline{v}', s_2)) + (1 - P(\underline{v}', \overline{v}', s_2)) \frac{\partial V_D(\overline{v}, \overline{v}', s_2)}{\partial \overline{v}'} = 0, \tag{A-39}$$

characterizes the unique interior solution for the friendly party's platform choice $\overline{v}'$. It follows that a pure strategy equilibrium exists and—by inspection of the first-order conditions—is characterized by a pair $(\underline{v}', \overline{v}')$ such that (1) $\underline{v} - (v_F - s_2) < \underline{v}' < \overline{v}' < \overline{v} - (v_F - s_2)$ and (2) $(\underline{v}', \overline{v}')$ simultaneously satisfy (A-37) and (A-39). $\square$

G. Other Dynamic Linkages. To facilitate a clear and tractable benchmark, our model presumes that there is a single dynamic linkage across dates 1 and 2, i.e., that the date-1 negotiation outcome determines the date-2 standing offer from FG to DG_2. Proposition 1 establishes two results, in a setting with exogenous turnover. First, a necessary and sufficient condition for a date-1 agreement is that the static surplus between the governments is positive. Second, the total *dynamic* surplus from an agreement is extracted by the foreign government.

In practice, there may be other dynamic linkages across dates. For example, the possibility of participating in a project at date 2 could depend on whether an agreement was signed at date 1. One might suppose that the chances of being able to pursue the project at date 2 are lower after an initial failure to pursue the project at date 1 ("the ship has sailed"). Another (related) possibility is that each of the foreign and domestic governments must incur fixed costs from commencing the project that are only expended at the onset of the agreement. Finally, the distribution of the date-2 domestic preference shock λ may depend on whether the domestic government is already a participant in an agreement at the start of date 2.

We reevaluate our benchmark result (Proposition 1) in the light of each of these three possibilities. Each of the three extensions illustrates how the total dynamic surplus from an agreement can depend on the date-1 negotiating outcome, even in a setting with exogenous turnover. In our first two extensions, a positive static surplus from an agreement between FG and DG_1 is not necessary for an agreement; in our final extension with endogenous preference shocks, depending on other primitives, a positive static surplus from agreement is either not necessary, or not sufficient for a date-1 agreement.

1. "The Ship Has Sailed". We modify our benchmark setting by allowing for the possibility that if no agreement is struck at date 1, the probability that the date-2 domestic government and the foreign government will have the opportunity to pursue the project at date 2 is $\tau \in [0, 1)$; if a date-1 agreement is reached, however, we maintain our benchmark assumption that the project can always continue at date 2 so long as both negotiating parties wish to participate.[4] All other aspects of the interaction remain unchanged from our benchmark setting. This could reflect an environment in which, if DG_1 refuses to participate at date 1, the governments anticipate that underlying conditions may change in the future that render the project infeasible, technologically or politically.

The date-two interaction proceeds as before; thus, DG_1 prefers to accept a date-1 offer b_1

[4] Formally, the probability that a date-2 agreement can be undertaken is $\tau(r_1)$, with $\tau(1) = 1$ and $\tau(0) = \tau < 1$.

from FG, i.e., choose $r_1(b_1) = 1$, if and only if

$$\begin{aligned}&(1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + \ V_D(v_D^1, v_D^2, b_1) \Big] \\ \geq \ & (1-\delta)0 \qquad\quad + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + \tau V_D(v_D^1, v_D^2, s_1) \Big], \end{aligned} \tag{A-40}$$

where we recall that w is the office rent that is enjoyed if and only if the incumbent is reelected, i.e., $v_D^2 = v_D^1$ (this does not depend on the date-2 project outcome, so it is not multiplied by τ), the continuation value $V_D(v_D^1, v_D^2, s_2)$ is defined in (3), and $\tau < 1$ is the probability that the governments will have the opportunity to pursue the date-2 project if there is no date-1 agreement (recall that if the project is not implemented at either date, all agents derive a payoff of zero at that date).[5] Thus, the foreign government's date-1 proposal solves:

$$\max_{b_1 \geq s_1} \ (1-\delta) r_1(b_1)(v_F - b_1) + \delta(r_1(b_1) + (1 - r_1(b_1))\tau) \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, r_1(b_1) b_1 + (1 - r_1(b_1)) s_1),$$

where $V_F(v_D^2, r_1(b_1)b_1 + (1 - r_1(b_1))s_1)$ is defined in (4), subject to the constraint that $r_1(b_1) = 1$ if (A-40) holds, and $r_1(b_1) = 0$, otherwise. We observe that the total expected dynamic relative surplus from a date-1 agreement between FG and DG_1 with project valuation v_D^1 is:

$$(1-\delta)(v_D^1 + v_F) + \delta(1-\tau) \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \int_{-(v_D^2 + v_F)}^{\sigma} (v_D^1 + v_F + \lambda). \tag{A-41}$$

We obtain the following result, the proof of which is a direct extension of the proof of Proposition 1.

Proposition G1. 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 (A-41) is positive. Further, if the project is implemented at date 1, the foreign government extracts all surplus, offering the transfer that satisfies (A-40) with equality.

Notice that (A-41) is strictly positive whenever $v_D^1 + v_F \geq 0$, for any $\tau > 0$ and $\Pr(\underline{v}) \in [0, 1]$. Thus, a positive static surplus is sufficient, but not necessary, for a date-1 agreement to be reached.

2. Startup Costs. We modify our benchmark setting by allowing for the possibility of startup costs which need not be paid in subsequent periods. Specifically, we suppose that in the first

[5] We extend Assumption 2 to this setting by assuming that primitives are such that (A-40) is violated at $b_1 = s_1$.

date at which the project is implemented, i.e., the first date in which $r_t = 1$, all domestic agents incur a cost $c_D > 0$, while the foreign government incurs a cost $c_F > 0$, with $\max\{c_D, c_F\} < \sigma$. Thus, these costs are incurred at date 1 if the project is undertaken in date 1, or at date 2 if the project is undertaken at date 2, but was not undertaken at date 1. However, if the project was undertaken at date 1 (i.e., if $r_1 = 1$), the fixed cost of the project at date 2 for domestic agents is set to 0. For example, an environmental agreement may require one-off investments in an abatement technology, or the creation of relevant domestic regulatory agencies. Our extension reflects a context in which a portion of the costs associated with these investments are one-off, and need not be paid again over the life of the agreement.[6]

To analyze this setting, we define

$$\tilde{v}_D^2(r_1) = v_D^2 - (1 - r_1)c_D$$

to be the project value of DG_2, net of the per-period fixed cost. This fixed cost depends on whether the project was undertaken at date 1 ($r_1 = 1$), or whether no agreement was reached at that date ($r_1 = 0$). Similarly, we define

$$\tilde{v}_F(r_1) = v_F - (1 - r_1)c_F.$$

We begin by analyzing date 2 outcomes. If $\lambda > -(\tilde{v}_D^2(r_1) + s_2)$, there will be no amendment to the standing agreement, since DG_2 would prefer to implement the project at the status quo offer, rather than not implement the project. Similarly, if $\lambda < -(\tilde{v}_D^2(r_1) + \tilde{v}_F(r_1))$, there will be no date-2 agreement, since the static surplus at that date:

$$v_D^2 - (1 - r_1)c_D + v_F - (1 - r_1)c_F + \lambda$$

is strictly negative. Finally, if $\lambda \in [-(\tilde{v}_D^2(r_1) + \tilde{v}_F(r_1)), -(\tilde{v}_D^2(r_1) + s_2)]$, with probability θ an agreement is signed with an amended transfer $b_2(r_1) = -\tilde{v}_F(r_1)$; with complementary probability $1 - \theta$, an agreement is signed with an amended transfer $b_2(r_1) = -(\tilde{v}_D^2(r_1) + \lambda)$.

Following a similar approach to our benchmark setting, we may therefore write the expected date-2 project payoff of a domestic agent with date-1 project valuation v who anticipates that the date-2 domestic government will have project valuation v_D^2, will face status quo transfer s_2, and after a date-1 project outcome $r_1 \in \{0, 1\}$:

$$V_D(v, v_D^2, r_1, s_2) = \mathbb{I}[v_D^2 = v]w + \int_{-(\tilde{v}_D^2(r_1)+s_2)}^{\sigma} (\tilde{v}(r_1) + s_2 + \lambda)f(\lambda)\, d\lambda$$

[6] Our assumption that date-2 fixed costs are zero if the project was undertaken at date 1 is not important for any of our results: all that matters is that the costs are lower than at date 1.

$$+\int_{-(\tilde{v}_D^2(r_1)+\tilde{v}_F(r_1))}^{-(\tilde{v}_D^2(r_1)+s_2)} (v - v_D^2 + \theta(\tilde{v}_D^2(r_1) + \lambda + \tilde{v}_F(r_1))) f(\lambda)\, d\lambda. \tag{A-42}$$

Likewise, the expected date-2 project payoff of the foreign government FG given s_2 when it faces DG_2 with valuation v_D^2, and given a date-1 project outcome $r_1 \in \{0,1\}$ is:

$$\begin{aligned} V_F(v_D^2, r_1, s_2) = &\int_{-(\tilde{v}_D^2(r_1)+s_2)}^{\sigma} (\tilde{v}_F(r_1) - s_2) f(\lambda)\, d\lambda \\ &+ \int_{-(\tilde{v}_D^2(r_1)+\tilde{v}_F(r_1))}^{-(\tilde{v}_D^2(r_1)+s_2)} [(1-\theta)(\tilde{v}_D^2(r_1) + \lambda + \tilde{v}_F(r_1))] f(\lambda)\, d\lambda. \end{aligned} \tag{A-43}$$

The sum of (A-42) and (A-43) is:

$$\Delta(v, v_D^2, r_1) = \mathbb{I}[v_D^2 = v] w + \int_{-(\tilde{v}_D^2(r_1)+\tilde{v}_F(r_1))}^{\sigma} (\tilde{v}_D^1(r_1) + \tilde{v}_F(r_1) + \lambda) f(\lambda) d\lambda. \tag{A-44}$$

We therefore have that $\Delta(v, v_D^2, 1) - \Delta(v, v_D^2, 0) > 0$ if $v_D^1 + v_F > .5(c_F + c_D) - \sigma$, which holds if $v_D^1 + v_F \geq 0$, i.e., whenever the static date-1 surplus is positive. Thus, we may write the total expected relative date-1 surplus from an agreement between FG and DG_1 with project valuation $v_D^1 \in \{\underline{v}, \overline{v}\}$:

$$(1-\delta)(v_D^1 - c_D + v_F - c_F) + \delta \Pr(\underline{v})[\Delta(v_D^1, \underline{v}, 1) - \Delta(v_D^1, \underline{v}, 0)] + \delta \Pr(\overline{v})[\Delta(v_D^1, \overline{v}, 1) - \Delta(v_D^1, \overline{v}, 0)]. \tag{A-45}$$

Notice that so long as either $c_D > 0$ or $c_F > 0$, the term multiplied by δ in this expression is strictly positive, thereby differing from the corresponding expression (7). At date 1, the foreign government FG makes a proposal to the domestic government DG_1, with value $v_D^1 \in \{\underline{v}, \overline{v}\}$. DG_1 accepts the offer, i.e., chooses $r_1(b_1) = 1$, if and only if:

$$\begin{aligned} &(1-\delta)(v_D^1 + b_1 - c_D) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, 1, b_1) \\ \geq\ &(1-\delta)0 \qquad\qquad + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, 0, s_1). \end{aligned} \tag{A-46}$$

The Foreign government's date-1 proposal solves:

$$\max_{b_1 \geq s_1}\ (1-\delta) r_1(b_1)(v_F - b_1 - c_F) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, r_1(b_1), r_1(b_1) b_1 + (1 - r_1(b_1)) s_1),$$

subject to the constraint that $r_1(b_1) = 1$ if (A-46) holds, and $r_1(b_1) = 0$, otherwise.[7] We have the

[7] We extend Assumption 2 to this setting by assuming that primitives are such that (A-46) is violated at $b_1 = s_1$.

following result.

Proposition G2. If 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 (A-45) is positive. Further, if the project is implemented at date 1, the foreign government extracts all surplus, offering the transfer that satisfies (A-46) with equality.

To see that a date-1 agreement can be signed even when the static surplus is negative, notice that even when $v_D^1 + v_F = c_D + c_F$, i.e., the static surplus from a date-1 agreement between the date-1 governments is zero, the total *dynamic* surplus from an agreement is strictly positive. However, it remains true—as in our benchmark—that FG extracts fully extracts the surplus with its offer to DG_1.

3. Preference shocks depend on date-1 outcome. We modify our benchmark setting by allowing the distribution of the date-2 preference shock, λ, to depend on whether the domestic country is already a participant in the agreement, i.e., whether $r_1 = 1$. For example, countries that have already participated in a currency union may be more sensitive to shocks from other member states than countries that are considering whether to accede to the union for the first time. Alternatively, they may be liable for contingent guarantees or concessions that new signatories are not required to provide. Formally, the distribution of the date-2 preference shock, λ, is $F(\lambda; r_1)$, uniform on $[\overline{\lambda}_{r_1} - \sigma_{r_1}, \overline{\lambda}_{r_1} + \sigma_{r_1}]$, where $r_1 \in \{0, 1\}$ reflects whether a date-1 agreement was signed between the governments.[8] We extend Assumption 3 to this setting by assuming that for $r_1 \in \{0, 1\}$, $v_F + \overline{v} + \overline{\lambda}_{r_1} - \sigma_{r_1} < 0$, and $\underline{v} + s_1 + \overline{\lambda}_{r_1} + \sigma_{r_1} > 0$, and Assumption 2 by assuming that primitives satisfy, for $v_D^1 \in \{\underline{v}, \overline{v}\}$:

$$(1-\delta)(v_D^1 + s_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)(V_D(v_D^1, v_D^2, 1, s_1) - V_D(v_D^1, v_D^2, 0, s_1)] < 0,$$

where:

$$V_D(v_D^1, v_D^2, r_1, s_2) = \mathbb{I}[v_D^2 = v]w + \int_{-(v_D^2 + s_2)}^{\overline{\lambda}_{r_1} + \sigma} (v + s_2 + \lambda) f(\lambda; r_1)\, d\lambda$$
$$+ \int_{-(v_D^2 + v_F)}^{-(v_D^2 + s_2)} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda; r_1)\, d\lambda. \tag{A-47}$$

This restriction is necessary and sufficient for the date-1 participation constraint of the domestic government to be non-trivial. Using similar reasoning to the previous extensions, we have

[8] We maintain the assumption of uniformity under both distributions for consistency with our benchmark setting; however, the results below do not depend on this assumption.

that the total expected dynamic surplus from a date-1 agreement between FG and DG_1 with date-1 valuation $v_D^1 \in \{\underline{v}, \overline{v}\}$ is:

$$(1-\delta)(v_D^1+v_F)+\delta \Pr(\underline{v})\left[\int_{-(\underline{v}+v_F)}^{\overline{\lambda}_1+\sigma_1}(v_D^1+v_F+\lambda)f(\lambda;1)d\lambda-\int_{-(\underline{v}+v_F)}^{\overline{\lambda}_0+\sigma_0}(v_D^1+v_F+\lambda)f(\lambda;0)d\lambda\right] \\ +\delta \Pr(\overline{v})\left[\int_{-(\overline{v}+v_F)}^{\overline{\lambda}_1+\sigma_1}(v_D^1+v_F+\lambda)f(\lambda;1)d\lambda-\int_{-(\overline{v}+v_F)}^{\overline{\lambda}_0+\sigma_0}(v_D^1+v_F+\lambda)f(\lambda;0)d\lambda\right]. \tag{A-48}$$

We have the following result, the proof of which is similar to Proposition 1.

Proposition G3. 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 (A-48) is positive. Further, if the project is implemented at date 1, the foreign government extracts all surplus.

Notice that, in contrast with the two previous cases, that the terms multiplied by δ in expression (A-48) may be positive or negative. Consider, for example, a context in which $\overline{\lambda}_1 = \overline{\lambda}_0$, and suppose that DG_1 is relatively hostile, i.e., with date-1 project valuation $\underline{v}$. If $v_D^1 = \underline{v} = -v_F$, the static surplus from an agreement between hostile DG_1 and FG is zero, but the dynamic surplus is positive if and only if $\sigma_1 > \sigma_0$.

H. Comparing Transfers with Exogenous and Endogenous Turnover. Corollary 1 highlights that, in our setting with endogenous turnover, *if* a date-1 agreement is reached between relatively hostile DG$_1$ with date-1 project valuation $\underline{v}$ and FG, the transfer from FG to DG$_1$ is larger than the transfer that would have been negotiated between FG and relatively friendly DG$_1$ with date-1 project valuation $\overline{v} > \underline{v}$, in the event of an agreement. In this Supplemental Appendix, we provide additional results that order the transfers from FG to DG$_1$ with project valuation $v_D^1 \in \{\underline{v}, \overline{v}\}$ (1) within the context of exogenous turnover (i.e., the counterpoint to Corollary 1 for the setting with exogenous turnover), and (2) across our settings with exogenous versus endogenous turnover.

We write the relative value of participation for DG$_1$ with project valuation v_D^1, in the setting with *exogenous* turnover:

$$\begin{aligned}&(1-\delta)(v_D^1+b_1)+\delta\sum_{v_D^2\in\{\underline{v},\overline{v}\}}\Pr(v_D^2)\Big[\mathbf{1}[v_D^2=v_D^1]w+V_D(v_D^1,v_D^2,b_1)\Big]\\ -\;&(1-\delta)0\qquad\quad-\delta\sum_{v_D^2\in\{\underline{v},\overline{v}\}}\Pr(v_D^2)\Big[\mathbf{1}[v_D^2=v_D^1]w+V_D(v_D^1,v_D^2,s_1)\Big].\end{aligned}\tag{A-49}$$

DG$_1$'s corresponding relative value of participation for DG$_1$ in the setting with *endogenous* turnover is:

$$\begin{aligned}&(1-\delta)(v_D^1+b_1)+\delta\Pr(v^{\text{med}}\le\hat{v}(b_1))(\mathbf{1}[v_D^1=\underline{v}]w+V_D(v_D^1,\underline{v},b_1))\\ &\qquad\qquad\qquad\quad+\delta\Pr(v^{\text{med}}>\hat{v}(b_1))(\mathbf{1}[v_D^1=\overline{v}]w+V_D(v_D^1,\overline{v},b_1))\\ -\;&(1-\delta)0\qquad\quad-\delta\Pr(v^{\text{med}}\le\hat{v}(s_1))(\mathbf{1}[v_D^1=\underline{v}]w+V_D(v_D^1,\underline{v},s_1))\\ &\qquad\qquad\qquad\quad-\delta\Pr(v^{\text{med}}>\hat{v}(s_1))(\mathbf{1}[v_D^1=\overline{v}]w+V_D(v_D^1,\overline{v},s_1)),\end{aligned}\tag{A-50}$$

where we recall:

$$\Pr(v^{\text{med}}\le\hat{v}(z))=\frac{.5(\underline{v}+\overline{v})+(v_F-z)-(v^e-\alpha)}{2\alpha},$$

which is contained in $(0,1)$ by Assumption 3.

We use the following notation:

1. $b_1^{EX}(v_D^1)$ denotes the transfer that solves the date-1 domestic government's participation constraint under *exogenous* turnover, when its project valuation is $v_D^1 \in \{\underline{v}, \overline{v}\}$, i.e., that sets (A-49) equal to zero,

2. $b_1^{EN}(v_D^1)$ denotes the transfer that solves the date-1 domestic government's participation constraint under *endogenous* turnover, when its project valuation is $v_D^1 \in \{\underline{v}, \overline{v}\}$. i.e., that

sets (A-50) equal to zero.

The following Proposition highlights our additional results.

Proposition H1.

1. $b_1^{EX}(\underline{v}) > b_1^{EX}(\overline{v})$,
2. if $b_1^{EN}(\overline{v}) \geq b_1^{EX}(\overline{v})$, then $b_1^{EN}(\underline{v}) \geq b_1^{EX}(\underline{v})$

Finally, $b_1^{EN}(\overline{v}) < b_1^{EX}(\overline{v})$, and $b_1^{EN}(\underline{v}) > b_1^{EX}(\underline{v})$, if:

3a. w is sufficiently large, or

3b. $|\Pr(v^{\text{med}} \leq \hat{v}(s_1)) - \Pr(\underline{v})|$ is sufficiently small.

Moreover, it is always true that $b_1^{EN}(\underline{v}) > \max\{b_1^{EN}(\overline{v}), b^*(\delta)\}$, where $b^*(\delta)$ solves the first-order condition of FG when facing friendly DG_1 in the setting with endogenous turnover (Corollary 1).

The first point states that in the setting with exogenous turnover, any date-1 transfer from FG to relatively hostile DG_1 is larger than the corresponding transfer from FG to relatively friendly DG_1. The second point states that, if the transfer from FG to relatively *friendly* DG_1 is larger in the setting with endogenous turnover, versus the setting with exogenous turnover, then the same is also true of the transfer from FG to relatively *hostile* DG_1. Finally, sufficient conditions are given for the transfer to relatively friendly DG_1 to *decrease* in the setting with endogenous turnover, vis-a-vis the setting with exogenous turnover, and for the transfer to relatively hostile DG_1 to *increase* in the setting with endogenous turnover, vis-a-vis the setting with exogenous turnover. These sufficient conditions are large relative concern for holding office, or the exogenous probability that the hostile party is elected in our benchmark setting is close enough to the default prospect that the hostile party is elected in our setting with endogenous turnover.

Proof of Proposition H1. To prove the first point, it is sufficient to observe that the difference of (A-49) evaluated at $\underline{v}$ and (A-49) evaluated at $\overline{v}$ is strictly negative. To prove the second point, we take the difference of the relative value of agreement to DG_1 with valuation $v_D^1 \in \{\underline{v}, \overline{v}\}$ under exogenous versus endogenous turnover, i.e., the difference of (A-49) and (A-50):

$$\begin{aligned}\Xi(v_D^1) \equiv\ & \delta[\Pr(\underline{v}) - \Pr(v^{\text{med}} \leq \hat{v}(b_1))](V_D(v_D^1, \underline{v}, b_1) - V_D(v_D^1, \overline{v}, b_1)) \\ & - \delta[\Pr(\underline{v}) - \Pr(v^{\text{med}} \leq \hat{v}(s_1))](V_D(v_D^1, \underline{v}, s_1) - V_D(v_D^1, \overline{v}, s_1))\end{aligned}$$

$$- \delta[\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1))]w(\mathbf{1}[v_D^1 = \underline{v}] - \mathbf{1}[v_D^1 = \overline{v}]), \tag{A-51}$$

and observe that, after straightforward algebra, we observe that $\Xi(\overline{v}) < \Xi(\underline{v})$ if $\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)) < 0$, which is true. Thus, $\Xi(\overline{v}) > 0$ implies $\Xi(\underline{v}) > 0$. We finally prove that either of conditions 3a or 3b is sufficient for $b_1^{EN}(\overline{v}) < b_1^{EX}(\overline{v})$, and $b_1^{EN}(\underline{v}) > b_1^{EX}(\underline{v})$. Using the fact that:

$$V_D(v_D^1, \underline{v}, s_1) - V_D(v_D^1, \overline{v}, s_1) = V_D(v_D^1, \underline{v}, b_1) - V_D(v_D^1, \overline{v}, b_1) + \frac{\overline{v} - \underline{v}}{2\sigma}(b_1 - s_1), \tag{A-52}$$

$$\begin{aligned}
\Xi(v_D^1) = {} & \delta(\Pr(v^{\text{med}} \leq \hat{v}(s_1)) - \Pr(v^{\text{med}} \leq \hat{v}(b_1)))(\mathbf{1}[v_D^1 = \underline{v}]w - \mathbf{1}[v_D^1 = \overline{v}]w) \\
& + \delta(\Pr(v^{\text{med}} \leq \hat{v}(s_1)) - \Pr(v^{\text{med}} \leq \hat{v}(b_1)))(V_D(v_D^1, \underline{v}, b_1) - V_D(v_D^1, \overline{v}, b_1)) \\
& - \delta(\Pr(\underline{v}) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))\frac{(\overline{v} - \underline{v})(b_1 - s_1)}{2\sigma},
\end{aligned} \tag{A-53}$$

By inspection, we note $\lim_{w\to\infty} \Xi(\overline{v}) < 0$ and $\lim_{w\to\infty} \Xi(\underline{v}) > 0$. Finally, if $\Pr(\underline{v}) = \Pr(v^{\text{med}} \leq \hat{v}(s_1))$, (A-53) is strictly positive for $v_D^1 = \underline{v}$, and strictly negative for $v_D^1 = \overline{v}$. We conclude that if $|\Pr(\underline{v}) - \Pr(v^{\text{med}} \leq \hat{v}(s_1))|$ is sufficiently small, $b_1^{EN}(\overline{v}) < b_1^{EX}(\overline{v})$, and $b_1^{EN}(\underline{v}) > b_1^{EX}(\underline{v})$. □

I. Inefficiency with Endogenous Turnover: an Example. Proposition 1 establishes that in a setting with exogenous turnover, a date-1 agreement is signed whenever it is efficient to undertake the project, i.e., when the dynamic surplus from an agreement between DG_1 with project valuation v_D^1 and FG with project valuation FG is positive. The proposition also establishes that the dynamic surplus from an agreement is positive if and only if the static surplus is positive. So, in the setting with exogenous turnover, date-1 negotiation outcomes are always efficient.

In a setting with endogenous turnover, conditions for static efficiency and dynamic efficiency do not coincide. Moreover, it is possible that—fixing all primitives—there exists a transfer $b_1 > s_1$ from FG to DG_1 with project valuation v_D^1 for which the surplus from an agreement is positive (i.e., expression (13) is positive) but where, nonetheless, for for any transfer b_1 such that DG_1 prefers to implement the project, i.e., prefers $r_1(b_1) = 1$, FG prefers to make an offer that induces DG_1 to choose *not* to implement the project.

For an example of this phenomenon, consider the parameters $v_F = 3$, $\underline{v} = -2$, $\overline{v} = -.5$, $s_1 = 0$, $\sigma = 4$, $\alpha = 6$, $v^e = 0$, $\theta = 1$, $\delta = .6$, and $w = 4$. In the case of exogenous turnover, an agreement between DG_1 with project valuation $\underline{v}$ and FG with valuation v_F is statically and dynamically efficient, and will be signed.

Consider, instead, the case of endogenous turnover. In that case, DG_1 with project valuation v_L, chooses $r_1(b_1) = 1$ if and only if:

$$\begin{aligned}(1-\delta)(\underline{v}+b_1) &+ \delta \sum_{v_D^2 \in \{\underline{v},\overline{v}\}} \Pr(v_D^2)\left[\mathbf{1}[v_D^2 = \underline{v}]w + V_D(v_D^1, v_D^2, b_1)\right] \\ \geq (1-\delta)0 \qquad &+ \delta \sum_{v_D^2 \in \{\underline{v},\overline{v}\}} \Pr(v_D^2)\left[\mathbf{1}[v_D^2 = \underline{v}]w + V_D(v_D^1, v_D^2, s_1)\right], \end{aligned} \tag{A-54}$$

simplifies to the condition $r_1(b_1) = 1$ if and only if $b_1 \geq 2.40514$. Likewise, FG's offer solves:

$$\begin{aligned}\max_{b_1 \geq s_1}\ (1-\delta) r_1(b_1)(v_F - b_1) &+ \delta \Pr(v^{\text{med}} \leq \hat{v}(s_2(r_1(b_1), b_1))) V_F(\underline{v}, s_2(r_1(b_1), b_1)) \\ &+ \delta \Pr(v^{\text{med}} > \hat{v}(s_2(r_1(b_1), b_1))) V_F(\overline{v}, s_2(r_1(b_1), b_1)), \end{aligned} \tag{A-55}$$

which implies that FG prefers an offer b_1 that yields $r_1(b_1)$ if and only if $b_1 \leq 2.27121$. Thus, no date-1 agreement is signed. However, the total surplus from an agreement:

$$(1-\delta)(v_F + \underline{v}) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v},\underline{v}) - \Delta(\underline{v},\overline{v})), \tag{A-56}$$

is strictly positive for all $b_1 \in [0, 1.93208]$. This highlights that inefficient date-1 negotiation outcomes can arise in the setting with endogenous turnover.