Reelection and Renegotiation: the Political Economy of International Agreements[1]

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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.

Keywords: Negotiations, 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

1. Introduction

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

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".[4] Upon entering government in 1974, Labour re-opened negotiations, obtaining concessions in exchange for the UK's continued participation. In 2016 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 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

[4] The first quote is from *Labour's Programme for Britain* (1973), and the second is from the Labour Party's February 1974 general election manifesto.

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.[5] 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.[6] 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.[7] The revised British contribution remained in place until 2005.[8]

In this paper, we ask: 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 ultimately walk away from the agreement?

In our model, at each of two dates, a *domestic* government negotiates an agreement with a *foreign* government. The agreement specifies both whether a binary policy project is undertaken and the extent of any transfers to be exchanged between governments in exchange for implementing the project. The transfers could be interpreted as budget contributions, rebates or regulatory carve-outs. All agents hold commonly-known initial valuations of the

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

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

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

[8]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 these observations.

project. The initial domestic incumbent is intrinsically either relatively *friendly* or relatively *hostile*, but we assume that neither domestic party initially would prefer 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, there may be civil unrest that raises 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 undertake the project. But, suppose that agents care about future outcomes, and consider the future consequences of an initial agreement. When a future domestic government takes power, it may want to negotiate a larger transfer than what it inherited. But whether the foreign government would agree to a larger transfer depends on the credibility of the domestic government's threat to abandon the project based on the existing terms—the more primitively hostile is the date-two domestic government to the project, the greater is the set of circumstances in which it would be willing to walk away from the existing agreement. A more hostile future government (a) reduces date-two surplus, but (b) raises the prospect that the domestic government successfully negotiates a larger share of the surplus. This fundamental tension bears on all of our results.

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 reform project. Thus, beliefs about who will hold power in the future are *irrelevant* for whether an initial deal is signed, and for how the surplus from agreement is divided between the governments.

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 the date-one outcome. Greater initial policy concessions by the foreign government mitigate the desire of domestic voters to appoint a radical date-two government in order to extract even more. Instead, voters resolve to elect a government that is more likely to maintain the project. But if voters believe that the foreign government would be willing to offer far more concessions than are presently on the table, they prefer a more hostile government—regardless of their primitive preferences over the project, *all* voters share a common desire to extract as much surplus as possible from the foreign government. Thus, initial negotiations are both affected by, and partly determine, the outcome of the election and subsequent negotiation outcomes.

Our main findings are as follows. If the domestic government is initially relatively friendly, date-one agreements may be signed even when the static surplus between the domestic and foreign governments is negative. The reason is that the governments' static conflicts of interest are attenuated by a dynamic confluence of interests: *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 national government.

If, instead, the domestic government is initially relatively hostile, agreements may sometimes not be signed even when the static surplus between the domestic and foreign governments is positive. The reason is that the governments' static conflicts of interest are exacerbated by a dynamic conflict of interests: 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.

Our work relates to literatures on (1) agreements between states, (2) delegated bargaining, and (3) the political economy of dynamic policy commitment.

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

In the context of international and domestic politics, and in related economic contexts, several papers explore the induced preferences of voters over the negotiator (e.g., government or legislator) that will bargain on their behalf, including Persson, Tabellini et al. (1992), Segendorff (1998), Besley and Coate (2003), Gradstein (2004), Buchholz, Haupt and Peters (2005) and Harstad (2008). These models are, however, static: negotiations take place only *after* voters have made their delegation decisions. In our dynamic setting, negotiations take place both *before* and *after* elections (i.e., delegation decisions). Our contribution is to show how initial negotiation strategies are driven by the negotiators' conflicting interests in shaping voters' induced preferences over representatives who will have an opportunity to negotiate again in the future. We further show how these considerations may drive the possibility for initial agreements and how the associated surplus is divided between the initial negotiators.

Smith and Hayes (1997) study a related environment in which pre-election agreements become the status quo in future negotiations. They characterize renegotiation outcomes after an election for an inherited status quo, but do not derive the equilibrium agreements that generate this status quo. Battaglini and Harstad (2016) show how an incumbent party might choose inefficiently low sanctions (a "weak treaty") to differentiate itself electorally from a challenger.

In our model, initial agreements alter how future governments trade off the outside option from quitting an agreement with the inside option from maintaining the inherited agreement. The initial agreements thus serve as partial commitment devices. 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. Our mechanism, instead, is that different future governments will have different tolerances for maintaining an existing agreement rather than unilaterally quitting. All agents anticipate that more hostile governments have a greater propensity to walk away from standing offers, but for the same reasons are less likely maintain an agreement in the same circumstances as a more friendly government. The balance of these trade-offs—and voters' relative concern for each component—is shaped by the relative generosity of the standing offer. Fully endogenizing the degree of commitment inherent in the initial policy outcome is a core contribution of this paper.

The paper's outline 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 endogenous elections, showing how the answers to our motivating questions change radically vis à vis a setting with exogenous turnover. 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 a raft of extensions that are fully analyzed in the Appendix. A conclusion follows. Proofs are in the Appendix.

2. 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.[9] 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. 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, and in which FG derives a strictly positive date-1 value from the project taking place at the initial terms:

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

[9] The precise value of s_1—and whether it is positive or negative—does not play any role in our results.

We allow, however, 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*.[10] 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.[11] 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 the outcome of the domestic election. 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 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 shock λ to domestic preferences, 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

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

[11] 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 prospect that the median domestic voter places a very high value on the project is not too large.

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 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.[12] 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.

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:

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

[12] The parameter θ does not play an important role in our analysis. We include $\theta \in [0, 1]$ to emphasize that results do not depend sensitively on the distribution of future bargaining power. Nonetheless, scholars have considered how features of international institutions—such as re-negotiation protocols—might be chosen to maximize the prospect that an agreement survives (see, e.g., Koremenos, Lipson and Snidal (2001) or Koremenos (2001)).

One may observe that FG's project valuation does not evolve over time. We make this assumption for simplicity, and 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.

3. Policy Outcomes at Date Two

We start by analyzing the long-term consequences of date-1 outcomes. If the project was implemented at date 1, i.e., if $r_1 = 1$, then the status quo transfer 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 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 $\theta \in [0, 1]$, 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 any $b_2 > s_2$ will fail: when (2) holds, FG recognizes that DG_2 will implement the project even when 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 is recognized 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 exchange 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 therefore raises the transfer from s_2 to $b_2 = -(v_D^2+\lambda)$. These terms leave DG_2 with value $v_D^2+\lambda$ indifferent between implementing the project and quitting, allowing FG to claim the remainder of the surplus for itself.

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

Thus, the expected date-2 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 and face status quo transfer s_2 is:

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

The expected date-2 project payoff of the foreign government 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 more stark than necessary for our main results. What is crucial is that the terms that the domestic government obtains at date 2 improve as its valuation of the project falls, relative to the status quo offer. This improvement in terms holds regardless of the distribution of date-2 bargaining power, $\theta \in [0, 1]$. 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.

4. Policy Outcomes at Date One

Exogenous Power Transitions. In our benchmark setting, the valuation of the date-2 domestic government (DG_2) 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*, with value $v_D^1 = \overline{v}$, or relatively *hostile*, with value $v_D^1 = \underline{v}$. DG_1 accepts the offer, i.e., chooses $r_1(b_1) = 1$, if and only if:

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

where we recall that w 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*. 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 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 no different than the surplus in the event of disagreement. Thus, the total surplus from a date-1 agreement versus no agreement is unrelated to its terms:

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

Since 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 necessarily comes at the expense of DG_1, which therefore prefers to reject the offer.

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

For simplicity, we assume that the foreign government 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.

We next establish that when power transitions are, instead, endogenous, the terms of any initial agreement represent a polarizing force on domestic politics, and that more generous date-one agreements may *increase* or *decrease* the surplus from agreement between the date-1 negotiators. In contrast with our benchmark setting, we will show how the prospect of imminent elections may facilitate date-1 agreements even when the static surplus from agreement between governments is negative, or instead impede date-1 agreements even when the static surplus between governments is positive.

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 simultaneously cast their ballots in favor of their most-preferred date-2 government.

Imminent elections have a polarizing effect on negotiations between the FG and the date-1 domestic government, DG_1. In the benchmark setting, initial negotiations are driven by the conflict of interest between the date-1 negotiating partners over the division of the surplus. When elections are responsive 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 consequence, 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 domestic voter with valuation v prefers a date-2 domestic government that, from her perspective, induces the most favorable date-2 negotiation outcome, i.e., that solves:

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

where we recall that $s_2 = b_1$ if the project was implemented at date 1 with transfer b_1, or $s_2 = s_1$ if the project was not implemented at date 1. With a uniform distribution over the preference shock, λ, we obtain:

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 expectation that either party will reach an agreement with the foreign government in the same circumstances where she would value the project, and (2) her desire to extract a relatively more generous transfer from the foreign government in exchange for implementing the project. The first aspect 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.

Electing a relatively more hostile domestic government has two competing effects on these considerations. First, a more hostile DG_2 is at greater risk of failing to reach agreement with FG in circumstances where the domestic pivotal voter wants the project to proceed. Second,

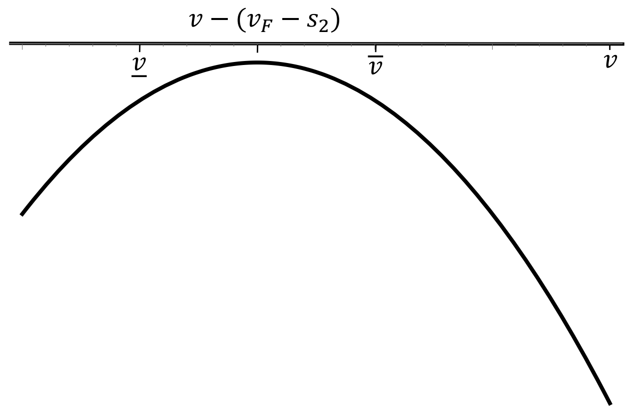


Figure 1: Induced preferences of a voter with date-1 valuation $v = 1$ over date-2 domestic governments, for $\overline{v} = -1$, $\underline{v} = -3$, $v_F = 6$, and $s_2 = 3$. The domestic voter's expected payoff is maximized by a DG_2 with valuation $v - (v_F - s_2) = -2$. Any domestic voter with valuation $v' < 1$ strictly prefers to support the relatively hostile party, even if $v' > \overline{v} > \underline{v}$.

a more hostile DG_2 can more credibly threaten to quit an existing agreement. This raises the prospect that it successfully renegotiates a larger transfer from FG.

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! The reason is that a voter's trade-off between the relatively friendly and hostile parties also depends on the inherited agreement s_2.

If FG's standing offer s_2 is not too small relative to its total willingness to pay v_F, the voter is inclined to appoint the more *friendly* government. With little additional surplus to extract from FG, a voter prefers a representative who is more likely to preserve the initial agreement. If, instead, FG would be prepared to offer much higher concessions to preserve the project, i.e., if $v_F - s_2$ is large, then voters are inclined to appoint the more *hostile* government: a voter is more willing to risk her representative failing to reach agreement in order to secure more generous negotiation outcomes. Thus, fundamentally pro-EU voters may elect an anti-EU party for instrumental reasons. So, too, regional elections may produce strong majorities for a secessionist party even though a majority of voters would prefer not to secede. Notice that it is precisely when FG has the *most* at stake from securing agreement, i.e., when its project valuation v_F is large, that the voter's incentives to elect a more hostile DG_2 are strongest.

Figure 1 illustrates a voter's induced preferences over date-2 governments via a numerical example. Given standing offer $s_2 = 3$ and FG valuation $v_F = 6$, a voter with valuation $v = 1$ who faced no friction in the supply of date-2 governments would prefer the DG_2 with valuation $v - (v_F - s_2) = -2$. Since she must either choose the relatively friendly or relatively hostile party, she prefers whichever party has the valuation that is closest to -2, and is therefore indifferent between the friendly party, with valuation $\overline{v} = -1$, and the hostile party, with valuation $\underline{v} = -3$. This is in spite of her intrinsically favorable attitude to the project (since her static valuation is positive), and thus her intrinsic alignment with the relatively friendly party.

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

The single-peaked structure of induced preferences implies that the median voter is decisive in an election: for any standing offer s_2, the hostile party wins the election if and only if $v^{\text{med}} \leq \frac{\underline{v}+\overline{v}}{2} + (v_F - s_2) \equiv \hat{v}(s_2)$. We allow for the possibility that both the foreign government and domestic parties are uncertain of the median voter's project valuation in between dates 1 and 2:

Assumption 4: The valuation v^{med} of the median voter is drawn from a uniform distribution[13] on the interval $[v^e - \alpha, v^e + \alpha]$, where (1) $v^e - \alpha < \frac{\underline{v}+\overline{v}}{2}$, and (2) $v^e + \alpha > \frac{\overline{v}+\underline{v}}{2} + v_F - s_1$.

The larger is α, the more uncertain are date-1 negotiating parties about the preferences of the domestic electorate. Conditions (1) and (2) imply enough uncertainty about voter preferences that each party wins with positive probability given *any* standing offer, $s_2 \in [s_1, v_F]$.

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:

$$\Pr(v^{\text{med}} \leq \hat{v}(s_2))\Delta(v_D^1, \underline{v}) + \Pr(v^{\text{med}} > \hat{v}(s_2))\Delta(v_D^1, \overline{v}), \tag{9}$$

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:

$$(1-\delta)(v_F + v_D^1) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(v_D^1, \underline{v}) - \Delta(v_D^1, \overline{v})). \tag{10}$$

Lemma 2 highlights how the relative total surplus from an agreement changes with the terms

[13] Uniform uncertainty is not essential for any of our results, but it facilitates tractable comparative statics.

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:

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

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:

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

Lemma 2 is fundamental to our subsequent results, and 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. When national elections are sensitive to negotiation outcomes, however, 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:

$$\begin{aligned}
&(1-\delta)(v_D^1 + b_1) + \delta \Pr(v^{\mathrm{med}} \leq \hat{v}(b_1))(\mathbf{1}[v_D^1 = \underline{v}]w + V_D(v_D^1, \underline{v}, b_1)) \\
&\qquad\qquad\qquad\quad + \delta \Pr(v^{\mathrm{med}} > \hat{v}(b_1))(\mathbf{1}[v_D^1 = \overline{v}]w + V_D(v_D^1, \overline{v}, b_1)) \\
\geq\ &(1-\delta)0 \qquad\qquad\quad + \delta \Pr(v^{\mathrm{med}} \leq \hat{v}(s_1))(\mathbf{1}[v_D^1 = \underline{v}]w + V_D(v_D^1, \underline{v}, s_1)) \\
&\qquad\qquad\qquad\quad + \delta \Pr(v^{\mathrm{med}} > \hat{v}(s_1))(\mathbf{1}[v_D^1 = \overline{v}]w + V_D(v_D^1, \overline{v}, s_1)).
\end{aligned} \tag{11}$$

Thus, FG's date-1 proposal solves:

$$\begin{aligned}
\max_{b_1 \geq s_1}\ &(1-\delta)r_1(b_1)(v_F - b_1) + \delta \Pr(v^{\mathrm{med}} \leq \hat{v}(s_2(r_1(b_1), b_1)))V_F(\underline{v}, s_2(r_1(b_1), b_1)) \\
&\qquad + \delta \Pr(v^{\mathrm{med}} > \hat{v}(s_2(r_1(b_1), b_1)))V_F(\overline{v}, s_2(r_1(b_1), b_1)),
\end{aligned} \tag{12}$$

subject to the participation constraint that $r_1(b_1) = 1$ if (11) 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 the outcomes of date-1 negotiations between the foreign government and the hostile party, which has project valuation $\underline{v}$.

Proposition 2. (*Hostile Party Initially Holds Power*).
If $\underline{v} + v_F < 0$, i.e., the static surplus between hostile DG_1 and FG is negative, a date-1 agreement is *never* signed. If $\overline{v} + v_F > 0$, for any $\underline{v} \in [-v_F, \overline{v})$, there exists $\delta^*(\underline{v}, w) \leq 1$ such that if and only if an election is *not too close*, i.e., $\delta \leq \delta^*$, a date-1 agreement is signed. Moreover:

1. $\delta^*(\underline{v}, w)$ *increases* in $\underline{v}$, *decreases* in w, and $\lim_{w \to \infty} \delta^*(\underline{v}, w) = 0$.

2. There exists w^* such that:

   a. if $w \geq w^*$, $\delta^*(\underline{v}, w) < 1$ for any $\underline{v} \in [-v_F, \overline{v})$, and

   b. if $w < w^*$, there exists $\underline{v}^* < \overline{v}$ such that if and only if $\underline{v} \geq \underline{v}^*$, $\delta^*(\underline{v}, w) = 1$.

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

Just as in the benchmark setting, a positive static surplus is necessary for the governments to reach an agreement. However, now a responsive electorate may render a positive static surplus insufficient to guarantee an initial agreement. Not only there is a static conflict—a greater date-1 transfer to the domestic government means less for the foreign government—but 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 static context, or in a dynamic setting where elections do not respond to negotiations, an agreement would be signed whenever there is a positive date-1 surplus. In the present context, however, sufficiently imminent elections preclude a date-1 agreement, for any positive date-1 surplus, if office-holding motives are sufficiently strong. Otherwise, agreements are struck if and only if an election is not too close. Finally, because one government's gain must constitute a loss to the other, the foreign government fully appropriates the surplus whenever an agreement is reached, just as in the benchmark setting,

Proposition 2 thus 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*).
If $\overline{v} + v_F \geq 0$, i.e., the static surplus between friendly DG_1 and FG is positive, a date-1 agreement is *always* signed. If $\underline{v} + v_F < 0$, for any $\overline{v} \in (\underline{v}, v_F)$, there exists $\delta^{**}(\overline{v}, w) \geq 0$ such that if and only if an election is *sufficiently close*, i.e., $\delta \geq \delta^{**}$, a date-1 agreement is signed. Moreover:

1. $\delta^{**}(\overline{v}, w)$ *decreases* in $\overline{v}$, *decreases* in w, and $\lim_{w\to\infty} \delta^{**}(\overline{v}, w) = 0$.

2. There exists w^{**} such that:

   a. if $w \geq w^{**}$, $\delta^{**}(\overline{v}, w) < 1$ for any $\overline{v} \in (\underline{v}, -v_F)$,

   b. if $w < w^{**}$, there exists $\overline{v}^{*} > \overline{v}$ such that if and only if $\overline{v} \leq \overline{v}^{*}$, $\delta^{**}(\overline{v}, w) = 1$.

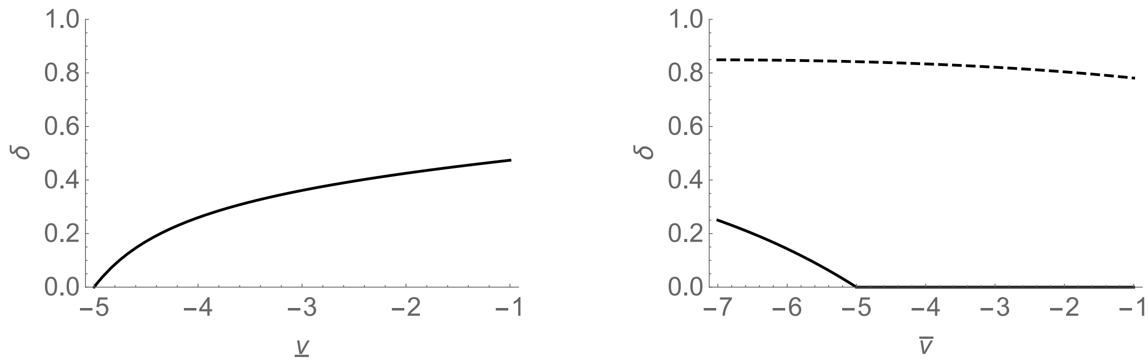
3. If FG's valuation v_F is not too small, there exists $\hat{\delta} > \delta^{**}$ such that if the election is sufficiently close, i.e., if $\delta > \hat{\delta}$, and office rents are sufficiently large, then FG offers DG_1 a *strictly positive* share of the surplus from the agreement.

As in the setting with exogenous turnover, a positive static surplus is sufficient for the governments to reach an agreement. But with endogenous turnover, a positive static surplus is not necessary: more generous offers bolster the re-election 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. 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.

Suppose, for example, that the static surplus between FG and the relatively friendly DG_1 is negative: $v_F + \overline{v} < 0$. In a static context, or in a dynamic setting where elections do not respond to negotiations, Proposition 1 shows that an agreement would be impossible. When elections are responsive to negotiating outcomes, by contrast, the surplus from agreement itself changes with more generous offers: the date-1 negotiating parties' joint concern to keep the hostile party out by shaping voters' induced preferences creates a confluence of interest that may facilitate agreement in spite of the negative static surplus. If office-holding motives are sufficiently large, sufficiently imminent elections facilitate a date-1 agreement for *any* date-1 surplus—positive *or* negative. Otherwise, agreements are struck if and only if an election is sufficiently close.

Proposition 3 therefore highlights that more proximate elections make possible an agreement between FG and the friendly DG_1 that otherwise could not have been secured, i.e., even when the static surplus from agreement is *negative.*

Figure 2 illustrates Propositions 2 and 3 for a set of benchmark parameters. Panel (a) plots the threshold $\delta^{*}(\underline{v}, w)$ in a setting where the relatively friendly party has valuation $\overline{v} = -1$. Since FG's valuation is $v_F = 5$, we have $\delta^{*}(-5, w) = 0$. As $\underline{v}$ increases, the conflict of interest between the hostile DG_1 and FG softens, but the shadow of elections still looms over negotiations: in the example, for any $\delta > .474$, there can be no agreement between the governments for *any* $\underline{v}$—even when there is a positive static surplus from an agreement. Conversely, panel (b) plots the thresholds δ^{**} (thick) and $\hat{\delta}$ (dashed) in a setting where



(a) *Imminent elections exacerbate conflicts.* (b) *Imminent elections mitigate conflicts*

Figure 2: Illustration of the thresholds δ^* and δ^{**}. Parameters are $w = 15$, $v_F = 5$, $\alpha = 8$, $\sigma = 8$, $s_1 = -1$, $\theta = 1$ and $v^e = 0$. In panel (a), $\overline{v} = -1$: the thick line is δ^*; in panel (b), $\underline{v} = -7$: the thick line is δ^{**} and the dashed line is $\hat{\hat{\delta}}$.

the relatively hostile party has valuation $\underline{v} = -7$. Despite their static mis-alignment, the friendly DG_1 and FG have a common interest in in securing the friendly party's re-election. So, whenever $\delta > .25$, an agreement is signed for *any* $\overline{v}$—even when there is a negative static surplus from an agreement.

With exogenous turnover, or when DG_1 is relatively hostile, FG fully appropriates all of the surplus from an agreement. By contrast, Proposition 3 states that when DG_1 is relatively friendly, a sufficiently imminent election may induce FG to offer a strictly positive share of the surplus. The reason is that when negotiations are conducted very close to the election, FG's interest in promoting the friendly DG_1's reelection leads it to make more generous offers in order to sway domestic voters in favor of the incumbent. This occurs whenever $\delta > \hat{\hat{\delta}}$, illustrated in Figure 2 by the dashed line.

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 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 (12). 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.* 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. Because the friendly DG_1 always reaches agreement with FG, its conflict with voters always 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.

Consequences of Changes in Domestic Politics. We now ask how changes in the preferences of the two domestic parties affect FG's preferred initial offer, i.e., the interior offer that solves FG's objective (12). FG's responses turn on the answers to two questions: how does 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 election toward it, encouraging FG to *raise* its transfer. By contrast, when the hostile party moderates, the wedge shrinks, reducing FG's stake, encouraging FG to *lower* its transfer.

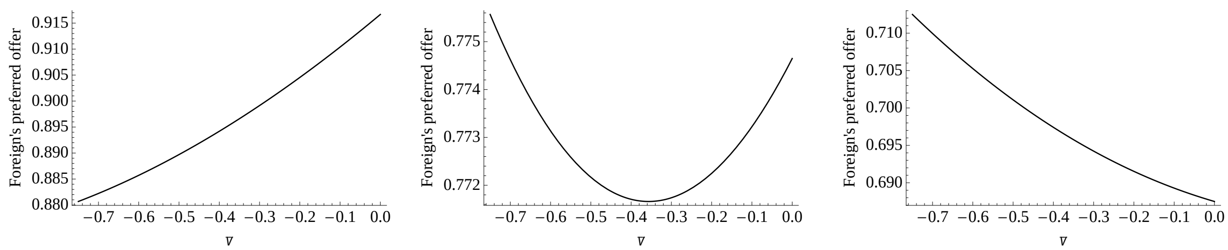
These calculations relate to the *value* placed by FG on using higher offers to buttress its future negotiating position. But whether higher offers can have a meaningful impact on the election depends on the sensitivity of the pivotal voter's choices to offers. With uniformly distributed uncertainty, 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 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 project valuation $\overline{v}$ of the friendly domestic political party increases. 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 3 illustrates these findings. If α is small, 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, 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, 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 $\alpha > \bar{\alpha}_*$), FG prefers to respond to a higher $\overline{v}$ with *smaller* transfers.



(a) $\alpha = 4$ (b) $\alpha = 4.74$ (c) $\alpha = 6$

Figure 3: Illustration of how FG's most preferred proposal varies with the project valuation of the *friendly* party. 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 (two decimal places): $\overline{\alpha}_* = 4.62$, $\overline{\alpha}^* = 5.54$, and $\overline{v}^*(\alpha) = .5(-3\alpha + \sqrt{3}\sqrt{\alpha(7\alpha - 8)} - 6)$.

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 $\alpha < \bar{\alpha}^*$), FG responds to a higher $\overline{v}$ with *larger* transfers.

Related, but 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

$$v^e - \underline{v} < v_F - s_1, \tag{13}$$

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 $\underline{v} \leq \underline{v}^*(\alpha)$.

An increase in 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 decrease, since the expected difference in the bargaining stances of the two parties falls when the hostile party's valuation $\underline{v}$ rises. 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 anticipated 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 (13) holds, this risk is outweighed by the 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 (13) holds.

Condition (13) holds in Figure 3. 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 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 through 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.

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

5. 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.[14] 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 (recall Figure 1); but in that context the voter must choose from one of two possible alternatives. In the extension, by contrast, the median voter can always achieve her most preferred alternative.

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:

$$\int_{v^e-\alpha}^{v^e+\alpha} \int_{-(v_F+\hat{v}_D^2(b_1))}^{\sigma} \frac{1}{2\alpha} \left[\mathbf{1}[\hat{v}_D^2 = v_D^1] w + (v_D^1 + v_F + \lambda) f(\lambda)\, d\lambda \right] dv^{\text{med}}. \tag{14}$$

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, do not affect the sign of the impact of more generous offers on the surplus: what matters is the *relative* alignment, i.e., which of the two parties is *most*

[14] In this interpretation, with two purely office-motivated parties that can commit to any policy, the assumption that the median voter selects DG_2 is without loss of generality, since voters' induced preferences over alternative DG_2 valuations are single-peaked.

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 are crucial in determining the extent to which DG_1 and FG are sufficiently aligned in their dynamic interests to achieve date-1 agreements.

In the Supplemental Appendix, we show how the electorate may *benefit* from being constrained to choose from a limited set of parties that cannot freely adapt platforms to perfectly reflect the preferred date-2 bargaining stances of voters. These frictions give the electorate a partial commitment to elect a more hostile government than it would otherwise select, thereby disciplining FG's date-1 offer. Gains from a limited choice tend to be highest when, relative to the date-1 domestic government, the median voter is more hostile to the project—these are the circumstances in which her implicit threat to revert to a far more hostile date-2 representative is most credible and thus strongly improves date-1 negotiation outcomes.

Limited Policy Commitments. 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.[15] 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 captures 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.

[15]We thank Gilat Levy, who proposed this extension.

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, circumstances exist with retrospective voters in which a friendly DG_1 secures a *larger* date-1 transfer than a hostile DG_1.

6. Conclusion

Our paper analyzes the dynamics of international agreements and domestic politics. We asked: how do the prospects for initial cooperation and the terms of agreements vary with uncertainty about whether one of the negotiating parties will subsequently be replaced by an agent with different preferences? And, how do the terms of an initial agreement affect the prospect of electoral replacement, the bargaining attitude of a potential successor, or the risk that a successor will ultimately walk away from the agreement?

If elections outcomes are insensitive to bargaining outcomes, the answer is simple: uncertainty about the future distribution of power plays *no* role in the prospects for initial agreement or the division of the surplus. A static surplus between the governments is necessary and sufficient for agreement, and the dynamic surplus is appropriated by the foreign government.

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

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

Although our motivating setting is the political economy of international negotiations, our insights extend to other settings in which one of the negotiating parties is accountable to a third party during negotiations. For example, consider an employer or government bargaining with a Trade Union. To avoid a strike, an employer can offer wage increases or more flexible working hours. Each party's relative value of agreement is the value derived from not engaging in industrial action, which disrupts production for the employer and earnings for workers. When the Trade Union leadership is accountable to its members during the course of negotiations via internal elections, our framework provides insights into the consequences of internal democracy for the prospects of successful short- and long-run negotiations, and the division of surplus between the negotiating parties.[16] 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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[16]We thank Kerwin Charles and Jon Eguia, who independently proposed this application.

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8. Appendix: Proofs of Results

Proof of Proposition 1. We first verify necessary and sufficient conditions for the project to be implemented at date 1. It is easy to verify that DG_1's relative date-1 value of agreement with transfer b_1 is a convex function of b_1, and that there exists a unique $b_D(v_D^1) \geq s_1$ such $r_1(b_1) = 1$ is weakly preferred by DG_1 with date-1 valuation v_D^1 if and only if $b_1 \geq b_D(v_D^1)$. Assumption 1 that $\underline{v} < \overline{v}$ and Assumption 2 that $\overline{v} + s_1 < 0$ further imply $b_D(v_D^1) > s_1$. By similar arguments, we obtain 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 $(1-\delta)(v_D^1 + v_F) \geq 0$. This establishes our first claim. 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 $b_1 \geq b_D$. Suppose, to the contrary, FG weakly prefers to make an offer $b_1 > b_D(v_D^1)$. This is equivalent to

$$\begin{aligned}
&(1-\delta)(v_F - b_1) \ + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, b_1) \\
&\geq (1-\delta)(v_F + v_D^1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Delta(v_D^1, v_D^2) - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, s_1). \qquad (15)
\end{aligned}$$

Using the identity $\sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, s_1) = \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[\Delta(v_D^1, v_D^2) - V_F(v_D^2, s_1)]$, we re-write (15) 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:

$$(1-\delta)(v_D^1 + b_1) \leq \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[V_F(v_D^2, b_1) - V_F(v_D^2, s_1)]. \qquad (16)$$

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

$$(1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, b_1) \ > \ \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_D(v_D^1, v_D^2, s_1), \qquad (17)$$

which is equivalent to:

$$(1-\delta)(v_D^1 + b_1) > \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2)[V_F(v_D^2, b_1) - V_F(v_D^2, s_1)], \qquad (18)$$

and which therefore contradicts expression (16). $\square$

Proof of Lemma 1. A domestic voter with 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 2 reveals that this condition is equivalent to $v \leq \frac{\underline{v}+\overline{v}}{2} + v_F - s_2$. $\square$

Proof of Lemma 2. The total relative surplus from an agreement with transfer b_1 between FG and the DG_1 is:

$$(1-\delta)(v_D^1+v_F)+\delta[\Pr(v^{\mathrm{med}}\le\hat{v}(b_1))\Delta(v_D^1,\underline{v})+\Pr(v^{\mathrm{med}}>\hat{v}(b_1))\Delta(v_D^1,\overline{v})]$$
$$-\delta[\Pr(v^{\mathrm{med}}\le\hat{v}(s_1))\Delta(v_D^1,\underline{v})+\Pr(v^{\mathrm{med}}>\hat{v}(s_1))\Delta(v_D^1,\overline{v})]. \qquad (19)$$

Thus, the change in total relative surplus from an agreement with transfer b_1' rather than $b_1 < b_1'$ is:

$$\delta(\Pr(v^{\mathrm{med}}\le\hat{v}(b_1'))-\Pr(v^{\mathrm{med}}\le\hat{v}(b_1)))(\Delta(v_D^1,\underline{v})-\Delta(v_D^1,\overline{v})). \qquad (20)$$

We have $\Delta(\underline{v},\underline{v})-\Delta(\underline{v},\overline{v})>0$, and $\Delta(\overline{v},\underline{v})-\Delta(\overline{v},\overline{v})<0$; moreover, $b_1'>b_1$ implies $\hat{v}(b_1')<\hat{v}(b_1)$ and thus $\Pr(v^{\mathrm{med}}\le\hat{v}(b_1'))-\Pr(v^{\mathrm{med}}\le\hat{v}(b_1))<0$. Thus, for all $\delta>0$, (20) 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:

$$(1-\delta)(\underline{v}+v_F)+\delta(\Pr(v^{\mathrm{med}}\le\hat{v}(b_1))-\Pr(v^{\mathrm{med}}\le\hat{v}(s_1)))(\Delta(\underline{v},\underline{v})-\Delta(\underline{v},\overline{v})). \qquad (21)$$

For any $\delta>0$, (21) 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:

$$\Psi(b_1,\underline{v},\delta)=(1-\delta)(\underline{v}+b_1)+\delta\Pr(v^{\mathrm{med}}\le\hat{v}(b_1))V_D(\underline{v},\underline{v},b_1)+\delta\Pr(v^{\mathrm{med}}>\hat{v}(b_1))V_D(\underline{v},\overline{v},b_1)$$
$$-\delta\Pr(v^{\mathrm{med}}\le\hat{v}(s_1))V_D(\underline{v},\underline{v},s_1)-\delta\Pr(v^{\mathrm{med}}>\hat{v}(s_1))V_D(\underline{v},\overline{v},s_1)$$
$$-\delta\Pr(\hat{v}(b_1)\le v^{\mathrm{med}}\le\hat{v}(s_1))w, \qquad (22)$$

convex in b_1 with a unique zero $b_1^D(\underline{v})>s_1$, such that (22) is weakly positive if and only if $b_1\ge b_1^D(\underline{v})$. However, if $\underline{v}+v_F<0$, then $b^{\Delta}(\underline{v},\delta)\le s_1$, so that (21) is strictly negative for any $b_1>s_1$. We conclude that if $\overline{v}+v_F<0$, a date-1 agreement is never signed.

Suppose, next, $\overline{v}+v_F>0$. For all $\delta\in(0,1)$, and for any $\underline{v}\ge -v_F$, $b^{\Delta}(\underline{v},\delta)>s_1$, and it is easily verified that $b^{\Delta}(\underline{v},\delta)$ strictly increases in $\underline{v}$. A necessary and sufficient condition for a date-1 agreement is that (22) is weakly positive, evaluated at $b^{\Delta}(\underline{v},\delta)$, i.e., that $\Psi(b^{\Delta}(\underline{v},\delta),\underline{v},\delta)\ge 0$. It is easily verified that if $\underline{v}+v_F\ge 0$, $\Psi(b^{\Delta}(\underline{v},\delta),\underline{v},\delta)$ is convex in δ, that $\Psi(b^{\Delta}(\underline{v},1),\underline{v},1)=0$, and that there exists at most one $\delta^*(\underline{v},w)\in[0,1)$ solving $\Psi(b^{\Delta}(\underline{v},\delta^*(\underline{v},w)),\underline{v},\delta^*(\underline{v},w))=0$. We establish properties of $\delta^*(\underline{v},w)$, and conditions for $\delta^*(\underline{v},w)\le 1$. First, we claim that $\delta^*(\underline{v},w)$ strictly increases in $\underline{v}$. To see this, notice that $\delta^*(\underline{v},w)$ has three roots: $\underline{v}_1=-v_F$, $\underline{v}_2=-v_F+\alpha(1+\theta)+\sqrt{(v_F+\overline{v})^2+(1+\theta)^2\alpha^2+4w\sigma}$, and $\underline{v}_3=-v_F-\alpha(1+\theta)+\sqrt{(v_F+\overline{v})^2+(1+\theta)^2\alpha^2+4w\sigma}$. Since $\underline{v}_2\ge\overline{v}$, $\underline{v}_3\le -v_F$, and $\delta^*(\underline{v},w)|_{\underline{v}=-v_F}$ strictly increases in $\underline{v}$ evaluated at $-v_F$, we conclude $\delta^*(\underline{v},w)$ strictly increases in $\underline{v}\in[-v_F,\overline{v})$. Further, it is straightforward to show that $\delta^*(\underline{v},w)$ strictly decreases in w.

We have $\delta^*(\overline{v}, w) \leq 1$ if and only $w \geq \frac{\alpha}{\sigma}\frac{v_F+\overline{v}}{v_F-\sigma}(\sigma + \overline{v} + s_1 - \theta(v_F - s_1)) \equiv w^*$, where the supposition $v_F + \overline{v} > 0$, Assumption 1 that $\overline{v} > \underline{v}$, and Assumption 2 that $v_F - s_1 > 0$ implies $w^* \geq 0$ if and only if $\overline{v} + s_1 - \theta(v_F - s_1) > -\sigma$. Thus, if and only if $w \geq w^*$, $\delta^*(\underline{v}, w) < 1$ for any $\underline{v} < \overline{v}$. Finally, direct substitution yields $\delta^*(-v_F, w) = 0$.

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:

$$\begin{aligned}(1-\delta) \;\; &(v_F - b_1') + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))V_F(\underline{v}, b_1') + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_F(\overline{v}, b_1') \\ \geq \;\; &(1-\delta)(v_F + \underline{v}) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1^D(\underline{v}))) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) \\ &+ \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1). \end{aligned} \tag{23}$$

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

$$\begin{aligned}(1-\delta)(\underline{v} + b_1') + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))[V_D(\underline{v}, \underline{v}, b_1') + w] + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_D(\underline{v}, \overline{v}, b_1') \\ > \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))[V_D(\underline{v}, \underline{v}, s_1) + w] + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_D(\underline{v}, \overline{v}, s_1). \end{aligned} \tag{24}$$

Substituting $V_D(v_D^1, v, b_1) + \mathbf{1}[v_D^1 = v]w = \Delta(v_D^1, v) - V_F(v, b_1)$, reveals that (24) is equivalent to:

$$\begin{aligned}&\delta \Pr(v^{\text{med}} \leq \hat{v}(b_1'))V_F(\underline{v}, b_1') + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1')))V_F(\overline{v}, b_1') \\ < \; &\delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1) \\ &+ \; \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1')) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v}, \underline{v}) - \Delta(\underline{v}, \overline{v})) + (1-\delta)(\underline{v} + b_1'). \end{aligned} \tag{25}$$

Combining (25) and (23) yields $\Pr(v^{\text{med}} \leq \hat{v}(b_1^D(\underline{v}))) < \Pr(v^{\text{med}} \leq \hat{v}(b_1'))$, ie., $b_1' < b_1^D(\underline{v})$, a contradiction. $\square$

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:

$$(1-\delta)(\overline{v} + v_F) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\overline{v}, \underline{v}) - \Delta(\overline{v}, \overline{v})). \tag{26}$$

For any $\delta > 0$, (26) strictly increases in b_1, and has a unique zero that we denote $b^{\Delta}(\overline{v}, \delta)$ so that (26) is weakly positive if and only if $b_1 \geq b^{\Delta}(\overline{v}, \delta)$. For FG, the relative value of an agreement with transfer b_1, versus no agreement, is:

$$\begin{aligned}\Lambda(b_1, \overline{v}, \delta) = (1-\delta)(v_F - b_1) + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1))V_F(\underline{v}, b_1) + \delta \Pr(v^{\text{med}} > \hat{v}(b_1))V_F(\overline{v}, b_1) \\ - \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) - \delta \Pr(v^{\text{med}} > \hat{v}(s_1))V_F(\overline{v}, s_1). \end{aligned} \tag{27}$$

For any $\delta > 0$, (27) 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 threshold $b_F \in (s_1, v_F)$ such that (27) is weakly positive only if $b_1 \leq b_F$. A necessary and sufficient condition for a date-1 agreement is therefore that $b_F \geq b^{\Delta}(\overline{v}, \delta)$, which is true if and only if $\Lambda(b^{\Delta}(\overline{v}, \delta), \overline{v}, \delta) \geq 0$. However, if $\overline{v} + v_F \geq 0$, then $b^{\Delta}(\overline{v}) \leq s_1$, so that (26) is strictly positive for any $b_1 > s_1$. We conclude that if $\overline{v} + v_F \geq 0$, a date-1 agreement is always signed.

Suppose, next, $\underline{v} + v_F < 0$. It is easily verified that $\Lambda(b^{\Delta}(\overline{v}, \delta), \overline{v}, \delta)$ is strictly concave in δ, that $\Lambda(b^{\Delta}(\overline{v}, 1), \overline{v}, 1) = 0$ and that there exists at most one $\delta^{**}(\overline{v}, w) \in [0, 1)$ that solves $\Lambda(b^{\Delta}(\overline{v}, \delta^{**}(\overline{v}, w)), \overline{v}, \delta^{**}(\overline{v}, w)) = 0$. We next establish properties of $\delta^{**}(\overline{v}, w)$. First, we claim that $\delta^{**}(\overline{v}, w)$ strictly decreases in $\overline{v}$. To see this, notice that $\delta^{**}(\overline{v}, w) = 0$ has three roots: $\overline{v}_1 = -v_F$, $\overline{v}_2 = -v_F - \alpha(1+\theta) - \sqrt{(v_F + \underline{v})^2 + (1+\theta)^2\alpha^2 + 4\sigma w}$, 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 $\overline{v}_3 \geq -v_F$, that $\overline{v}_2 \leq \underline{v}$, and that $\delta^{**}(\overline{v}, w)$ strictly increases in $\overline{v}$ evaluated at $\underline{v} = -v_F$. Further, it is straightforward to show that $\delta^{**}(\overline{v}, w)$ decreases in w. We have that $\delta^{**}(\overline{v}, w) \leq 1$ if and only if $w \geq -\frac{\alpha}{\sigma}\frac{v_F + \underline{v}}{v_F - s_1}(\sigma + \underline{v} + s_1 - \theta(v_F - s_1)) \equiv w^{**}$, where the supposition that $v_F + \underline{v} < 0$, and Assumption 2 that $v_F - s_1 > 0$ imply that $w^{**} \geq 0$ if and only if $\underline{v} + s_1 - \theta(v_F - s_1) > -\sigma$. Direct substitution yields $\delta^{**}(-v_F, w) = 0$ and it is straightforward to verify $\lim_{w\to\infty} \delta^{**}(\overline{v}, w) = 0$.

To prove the final claim, recall that $\Lambda(b_1, \overline{v}, \delta)$ is strictly concave in b_1. Let $b^*(\delta)$ denote the transfer solving the first-order condition associated with (27): $b^*(\delta)$ is strictly concave in δ and $\lim_{\delta\to 0^+} b_1^*(\delta) = -\infty$. Computation yields v_F^* such that $b^*(1) > s_1$ if and only if $v_F > v_F^*$, and that $b^*(\delta)$ strictly increases in δ. Thus, $v_F > v_F^*$ implies that there exists $\hat{\delta} < 1$ such that $b_1^*(\delta) > s_1$ if and only if $\delta \in (\hat{\delta}, 1)$. Recalling that $b_1^D(v, \delta)$ denotes the reservation transfer of DG_1 with value $v \in \{\underline{v}, \overline{v}\}$, that $\Psi(b_1, \underline{v}, \delta)$, given by expression (22), is the relative value to hostile DG_1 from choosing $r_1(b_1)$, we define the analogous relative value for friendly DG_1:

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

We establish that if w is sufficiently large, $b^*(\delta) > s_1$ implies $\Phi(b^*(\delta), \overline{v}, \delta) > 0$. It is straightforward to verify that $\Phi(b^*(\delta), \overline{v}, \delta)$ is strictly concave in δ, that $\Phi(b^*(\delta), \overline{v}, \delta)$ linearly and strictly increases in w if and only if $b^*(\delta) > s_1$, and that there exists $w^{***}(\hat{\delta}) \in \mathbb{R}$ such that $\Phi(b^*(\hat{\delta}), \overline{v}, \hat{\delta}) > 0$ if and only if $w > w^{***}$. Thus $w > w^{***}$ implies $\Phi(b^*(\delta), \overline{v}, \delta) > 0$ for all $\delta > \hat{\delta}$. $\square$

Proof of Corollary 1. Recalling that $b_1^D(v, \delta)$ denotes the reservation transfer of DG_1 with value $v \in \{\underline{v}, \overline{v}\}$, that $\Psi(b_1, \underline{v}, \delta)$, given by expression (22), is the relative value to hostile DG_1 from choosing $r_1(b_1)$, and that (28) is the corresponding relatively 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 $b_1 \geq 0$, $\Psi(b_1; \underline{v}, w) - \Phi(b_1; \overline{v}, w) < 0$

which, using $V_D(v, v', b_1) = \Delta(v, v') - V_F(v', b_1)$, is equivalent to:

$$\begin{aligned}(1-\delta)(\underline{v}-\overline{v}) &+ \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v},\underline{v}) - \Delta(\underline{v},\overline{v})) \\ &- \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\overline{v},\underline{v}) - \Delta(\overline{v},\overline{v})) < 0, \qquad (29)\end{aligned}$$

which is true, since $\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)) < 0$, $\Delta(\underline{v},\underline{v}) - \Delta(\underline{v},\overline{v}) > 0$, and $\Delta(\overline{v},\underline{v}) - \Delta(\overline{v},\overline{v}) < 0$. 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 (27). 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

$$\begin{aligned}&(1-\delta)(\underline{v}+v_F) + \delta(\Pr(v^{\text{med}} \leq \hat{v}(b_1)) - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))(\Delta(\underline{v},\underline{v}) - \Delta(\underline{v},\overline{v})) \\ &- \ [(1-\delta)(v_F - b_1) + \delta \Pr(v^{\text{med}} \leq \hat{v}(b_1))V_F(\underline{v}, b_1) + \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(b_1)))V_F(\overline{v}, b_1) \\ &\quad - \ \delta \Pr(v^{\text{med}} \leq \hat{v}(s_1))V_F(\underline{v}, s_1) - \delta(1 - \Pr(v^{\text{med}} \leq \hat{v}(s_1)))V_F(\overline{v}, s_1)]. \qquad (30)\end{aligned}$$

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 are increasing in $b_1 \in [0, b^*(\delta)]$. Thus, (30) strictly *decreases* 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 $b^*(\delta) < b_D^1(\underline{v},\delta)$.

Proof of Propositions 4 and 5: We re-write FG's interior offer $b^*(\delta) = b^*(\alpha,\underline{v},\overline{v})$. By direct substitution, we write $\frac{\partial b^*(\alpha,\underline{v},\overline{v})}{\partial \overline{v}}$ in the form $\frac{\partial b^*(\alpha,\underline{v},\overline{v})}{\partial \overline{v}} = \frac{\nu(\alpha,\underline{v},\overline{v})}{\kappa}$, where $\kappa > 0$. Thus, $\frac{\partial b^*(\alpha,\underline{v},\overline{v})}{\partial \overline{v}} \geq 0$ if and only if $\nu(\alpha,\underline{v},\overline{v}) \geq 0$. Moreover, $\frac{\partial \nu(\alpha,\underline{v},\overline{v})}{\partial \overline{v}} = 2\delta(\overline{v} - \underline{v} + \alpha + \theta\alpha) > 0$. Thus, if $\nu(\alpha,\underline{v},\overline{v}') \geq 0$, $\overline{v}'' > \overline{v}'$ implies $\nu(\alpha,\underline{v},\overline{v}'') > 0$. We note $\frac{\partial^2 \nu(\alpha,\underline{v},\overline{v})}{\partial \alpha^2} = -4\delta(1+\theta) < 0$, and $\nu(0,\underline{v},\overline{v}) = \delta(\underline{v}-\overline{v})^2 \geq 0$ for all $\overline{v} \in [\underline{v}, 0]$. We obtain *at most* one strictly positive root, $\alpha(\overline{v})$, which solves $\nu(\alpha(\overline{v}),\underline{v},\overline{v}) = 0$. Define $\bar{\alpha}_* \equiv \alpha(\underline{v})$ and $\bar{\alpha}^* \equiv \alpha(-s_1)$. Suppose, first, $\alpha < \bar{\alpha}_*$. 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, $\alpha > \bar{\alpha}^*$. 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 $\alpha \in [\bar{\alpha}_*, \bar{\alpha}^*]$, then $\nu(\alpha,\underline{v},\underline{v}) > 0$, and $\nu(\alpha,\underline{v},-s_1) < 0$. Since $\nu(\alpha,\underline{v},\overline{v})$ is strictly increasing in $\overline{v}$, we conclude that 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 $\frac{\partial b^{\text{int}}(\alpha,\underline{v},\overline{v})}{\partial \underline{v}} = \frac{\mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\kappa}$, where $\kappa > 0$. We show that if $v^e - \underline{v} < v_F - s_1$, then $\mu(\alpha,\underline{v},\overline{v},\delta,v^e) < 0$. We have $\frac{\partial \mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\partial \overline{v}} = 2\delta(\overline{v} - \underline{v} - 2\alpha)$, 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 $\frac{\partial \mu(\alpha,\underline{v},\overline{v},\delta,v^e)}{\partial \overline{v}} < 0$ if $v^e - \underline{v} < v_F - s_1$. Assume this holds. Then, we must 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 $\mu(\alpha,\underline{v},\underline{v},1,v^e) < 0$. This follows from $\mu(\alpha,\underline{v},\underline{v},1,v^e)$ strictly increasing in v^e and verifying

$\mu(\alpha, \underline{v}, \underline{v}, 1, v_F - s_1 + \underline{v}) < 0$ by Assumption 3 that $\sigma + \underline{v} + s_1 > 0$.

9. Supplemental Appendix: Extensions and Additional Results for "Reelection and Renegotiation: The Political Economy of International Agreements"

Contents:

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

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 $\bar{v}$ 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. As in the base setting, we assume $v_D^1 + s_1 < 0$.

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:

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

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:

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

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,

$$V_D(v, s_2) = \int_{\underline{v}}^{\bar{v}} \int_{-(v_D^2+s_2)}^{\sigma} (v + s_2 + \lambda) f(\lambda)\, d\lambda\, dG(v_D^2)$$

$$+ \int_{\underline{v}}^{\bar{v}} \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda)\, d\lambda\, dG(v_D^2). \tag{31}$$

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

$$V_F(s_2) = \int_{\underline{v}}^{\bar{v}} \int_{-(v_D^2+s_2)}^{\sigma} (v_F - s_2) f(\lambda)\, d\lambda\, dG(v_D^2)$$

$$+ \int_{\underline{v}}^{\bar{v}} (1-\theta) \int_{-(v_D^2+v_F)}^{-(v_D^2+s_2)} (v_D^2 + \lambda + v_F) f(\lambda)\, d\lambda\, dG(v_D^2). \tag{32}$$

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:

$$(1-\delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) \geq \delta V_D(v_D^1, s_1). \tag{33}$$

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 (33) 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 (33).

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:

$$\Delta(v_D^1, s_2) = V_D(v_D^1, s_2) + V_F(s_2) = \int_{\underline{v}}^{\bar{v}} \int_{-(v_D^2+v_F)}^{\sigma} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda \, dG(v_D^2). \tag{34}$$

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:

$$(1-\delta)(v_D^1 + v_F) + \Delta(v_D^1, b_1) - ((1-\delta)0 + \Delta(v_D^1, s_1)) = (1-\delta)(v_D^1 + v_F), \tag{35}$$

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} select her most preferred representative, allowing the voter to choose any representative with valuation $v_D^2 \in [\underline{v}, \bar{v}]$, where the bounds $\underline{v}$ and $\bar{v}$ 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) $v^e + \alpha < \bar{v}$.

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 $(\underline{v}, \bar{v})$.

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

$$v_D^2(s_2) = v_{\text{piv}} - (v_F - s_2). \tag{36}$$

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:

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

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:

$$\Delta(v_D^1, b_1) - \Delta(v_D^1, s_1) = \int\limits_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha} \int\limits_{-v_D^2(b_1)-v_F}^{-v_D^2(s_1)-v_F} (v_D^1 + \lambda + v_F) f(\lambda)\, d\lambda\, dv_{\text{piv}}. \tag{37}$$

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:

$$b^* \equiv v_D^1 + v_F - v^e, \tag{38}$$

and *positive* if and only if $b_1[s_1, 2b^* - s_1]$.

To understand the result, note that the transfer b_1 that maximizes the expected date-2 surplus from an agreement (37) 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.

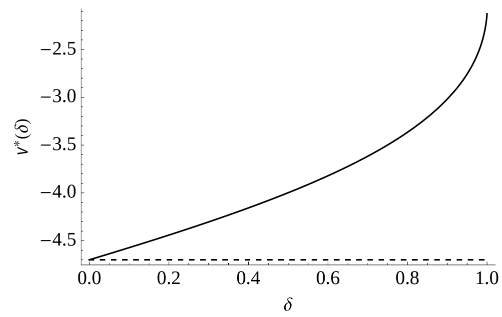
First, there is a dynamic conflict between FG and DG_1, since the date-1 transfer determines the division of date-2 surplus. FG prefers to secure DG_2's participation in the project with lower date-2 transfers, while the DG_1 wants its successor to secure higher transfers.

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.

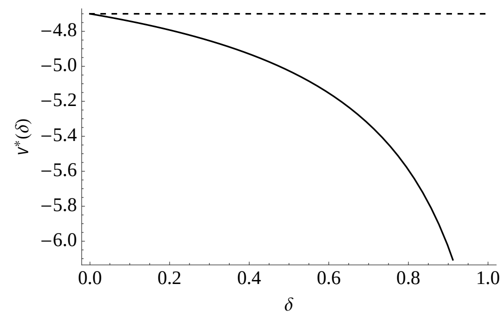
If DG_1 expects to view the project favorably relative to its electorate, i.e., if $v_D^1 - v^e$ is positive and large, this domestic mis-alignment *raises* the alignment between DG_1 and FG. In this case, *both* governments expect to gain from a larger transfer that steers voters toward a less hostile 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



(a) $v^e = 4$



(b) $v^e = -4$

Figure 4: 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.

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 valuation 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 4 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.[17]

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:

$$-\delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}\theta(v_F - b_1^*)\frac{\partial}{\partial b_1} F(-v_D^2(b_1) - b_1)|_{b_1=b_1^*}\, dv_{\text{piv}} - \delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}(1 - F(-v_D^2(b_1^*) - b_1^*))\, dv_{\text{piv}}$$
$$+ \delta \int_{v^e-\alpha}^{v^e+\alpha} \frac{1}{2\alpha}(1-\theta) \int_{-v_D^2(b_1^*)-v_F}^{-v_D^2(b_1^*)-b_1^*} \left.\frac{\partial v_D^2(b_1)}{\partial b_1}\right|_{b_1=b_1^*} f(\lambda)\, d\lambda\, dv_{\text{piv}} \;=\; 1-\delta. \tag{39}$$

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.

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

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 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 9 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 (39) 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

$$b_1^* = \frac{\delta(v_F(2+\theta) - v^e + \sigma) - 2\sigma}{\delta(3+\theta)}. \tag{40}$$

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,

$$(1-\delta)(v_D^1+b_1)+\delta(V_D(v_D^1,b_1)-V_D(v_D^1,s_1)) \tag{41}$$

is convex in b_1; $\delta \in [0,1)$, and $v_D^1+s_1<0$ implies there is at most one $b_D(v_D^1) \in (0, v_F]$ 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

$$(1-\delta)(v_F-b_1)+\delta V_F(b_1) \ \geq \ (1-\delta)(v_F+v_D^1)+\delta V_F(s_1), \tag{42}$$

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

$$(1-\delta)(v_D^1+b_1)+\delta V_D(v_D^1,b_1) \ > \ \delta V_D(v_D^1,s_1). \tag{43}$$

Letting $\Delta(v_D^1)=\int_{\underline{v}}^{\bar{v}}\int_{-(v_D^2+v_F)}^{\sigma}(v_D^2+\lambda+v_F)f(\lambda)\,d\lambda\,dG(v_D^2)$, (43) 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 (42) 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:

$$\begin{aligned} V_D(v_D^1, s_2) \; &= \int_{v^e-\alpha}^{v^e+\alpha} \tfrac{1}{2\alpha} \int_{-(v_D^2(s_2)+s_2)}^{\sigma} (v+\lambda+s_2) f(\lambda)\, d\lambda\, dv_{\text{piv}} \\ &+ \int_{v^e-\alpha}^{v^e+\alpha} \tfrac{1}{2\alpha} \int_{-(v_D^2(s_2)+v_F)}^{-(v_D^2(s_2)+s_2)} (v - v_D^2(s_2) + \theta(v_D^2(s_2)+\lambda+v_F)) f(\lambda)\, d\lambda\, dv_{\text{piv}}. \end{aligned} \tag{44}$$

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:

$$\begin{aligned} V_F(s_2) \; &= \int_{v^e-\alpha}^{v^e+\alpha} \tfrac{1}{2\alpha} \int_{-(v_D^1(s_2)+s_2)}^{\sigma} (v_F - s_2) f(\lambda)\, d\lambda\, dv_{\text{piv}} \\ &+ \int_{v^e-\alpha}^{v^e+\alpha} \tfrac{1}{2\alpha} (1-\theta) \int_{-(v_D^1(s_2)+v_F)}^{-(v_D^1(s_2)+s_2)} (v_F + v_D^1(s_2) + \lambda) f(\lambda)\, d\lambda\, dv_{\text{piv}}. \end{aligned} \tag{45}$$

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 (40). 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 $v^e \leq \frac{s_1\theta(\theta+3) - v_F\left(\theta^2+4\theta+2\right) + \sigma(\theta+4)}{\theta+2}$. $\square$

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, and one in which she is forced to select *either* the friendly party (with valuation $\overline{v}$) *or* the hostile party (with valuation $\underline{v}$). 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.[18] 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:

$$\max_{v_D^2 \in \mathbb{R}} V(v_{\text{piv}}, v_D^2, s_2) \tag{46}$$

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 9 that the unique solution to (46) is:

$$\hat{v}(s_2) = v_{\text{piv}} - (v_F - s_2). \tag{47}$$

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

$$\max_{v_D^2 \in \{\underline{v}, \overline{v}\}} V(v_{\text{piv}}, v_D^2, s_2). \tag{48}$$

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

$$v_{\text{piv}} \leq \frac{\underline{v} + \overline{v}}{2} + (v_F - s_2). \tag{49}$$

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

[18] 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.

freely selects 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:

$$\begin{aligned}&(1-\delta)(\overline{v}+b_1^C)+\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}V_D(\overline{v},\underline{v},b_1^C)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},\overline{v},b_1^C)\,dv_{\text{piv}}\\ =\;&(1-\delta)0\qquad+\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-s_1}\frac{1}{2\alpha}V_D(\overline{v},\underline{v},s_1)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-s_1}^{v^e+\alpha}\frac{1}{2\alpha}V_D(\overline{v},\overline{v},s_1)\,dv_{\text{piv}}.\end{aligned}\tag{50}$$

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

$$(1-\delta)(v^e+b_1^{NC})+\delta\int_{v^e-\alpha}^{v^e+\alpha}\frac{1}{2\alpha}V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})\,dv_{\text{piv}},\tag{51}$$

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

$$(1-\delta)(v^e+b_1^C)+\delta\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}V_D(v_{\text{piv}},\underline{v},b_1^C)\,dv_{\text{piv}}+\delta\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}V_D(v_{\text{piv}},\overline{v},b_1^C)\,dv_{\text{piv}}.\tag{52}$$

Expression (52) is greater than (51) if and only if:

$$\begin{aligned}b_1^C-b_1^{NC}\;\geq\;&\frac{\delta}{1-\delta}\int_{v^e-\alpha}^{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}\frac{1}{2\alpha}\Big(V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})-V_D(v_{\text{piv}},\underline{v},b_1^C)\Big)\,dv_{\text{piv}}\\ +\;&\frac{\delta}{1-\delta}\int_{\frac{\underline{v}+\overline{v}}{2}+v_F-b_1^C}^{v^e+\alpha}\frac{1}{2\alpha}\Big(V_D(v_{\text{piv}},v_{\text{piv}}-(v_F-b_1^{NC}),b_1^{NC})-V_D(v_{\text{piv}},\overline{v},b_1^C)\Big)\,dv_{\text{piv}}.\end{aligned}\tag{53}$$

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 (53) 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 5 identifies pairs $(v^e, \overline{v})$ for which the inequality (53) is satisfied.

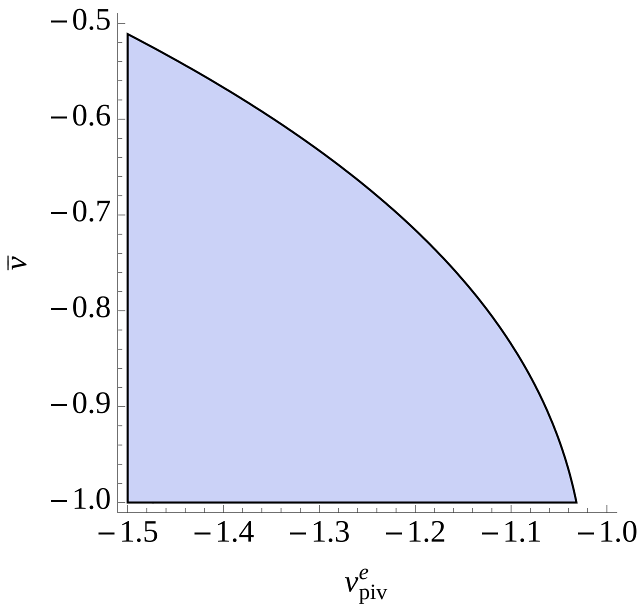


Figure 5: The shaded area denotes pairs $(v^e, \overline{v})$ such that domestic pivotal voter prefers a system of limited choice, i.e., expression (53) holds. Parameters: $\delta = .7$, $v_F = 4$, $\theta = 1$, $\sigma = 8.3$, $\underline{v} = -6$, $s_1 = 0$, and $\alpha = 2.5$.

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:

$$\begin{aligned}\max_{b_1\geq 0}\ (1-\delta)r_1(b_1)(v_F-b_1)&+\delta R(r_1(v^e+b_1))V_F(v, b_1 r_1(b_1))\\ &+\delta(1-R(r_1(v^e+b_1)))V_F(v', b_1 r_1(b_1)),\end{aligned}\tag{54}$$

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

$$\begin{aligned}(1-\delta)(v_D^1+b_1)+\delta R(v^e+b_1)[V_D(v_D^1, v, b_1)+w]+(1-R(v^e+b_1))V_D(v_D^1, v', b_1)\\ \geq \delta R(0)[V_D(v_D^1, v, 0)+w]+(1-R(0))V_D(v_D^1, v', 0),\end{aligned}\tag{55}$$

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

$$\beta(\overline{v}-\underline{v}) > \frac{1+\theta}{2},\tag{56}$$

then either (1) no agreement is signed, or (2) the agreement is the smallest that secures the hostile government's participation, i.e., satisfies (55).

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 $\bar{w}$ such that if $w > \bar{w}$ (office-holding motives are sufficiently strong), a date-1 friendly government that derives a strictly positive surplus from the foreign government's initial offer extracts strictly higher transfers from the foreign government than would be obtained by a hostile domestic government.

When the election outcome is responsive to the date-1 outcome, the *conflict* between the foreign government and a hostile domestic government increases. So, too, the *congruence* between the foreign government and the friendly domestic government increases. In order to promote the reelection of a friendly government, the foreign government makes strictly more generous offers than it would make to a hostile government.

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 (56) holds, the difference between the LHS and the RHS of hostile DG_1's participation constraint (55) is strictly concave and strictly increasing in b_1. Hence, there is at most one $b_D(\underline{v}, w) \in (0, v_F]$ such that $r_1(b_1) = 1$ if and only if $b_1 \geq b_D(\underline{v}, w)$. Condition (56) further implies that the foreign government's relative value of agreement at date-1 with transfer b_1 is strictly convex in b_1, strictly positive evaluated at $b_1 = 0$, and strictly negative evaluated at $b_1 = v_F$. Hence, there is a unique $b_F > 0$ such that the foreign government's relative value of agreement at date-1 with transfer b_1 is weakly positive if and only if $b_1 \leq b_F$, and that its relative value is strictly decreasing in $b_1 \in [0, b_F]$. Thus, $b_D(\underline{v}, w) > b_F$ implies no agreement is signed at date 1. If, instead, $b_D(\underline{v}, w) \leq b_F$ any offer $b_1 > b_D(\underline{v}, w)$ is strictly dominated for the foreign government by an offer $b_1' \in (b_D(\underline{v}, w), b_1)$. Thus, we must have $b_1 = b_D(\underline{v}, w)$ and $r_1(b_1) = 1$ if and only if $b_1 \geq b_D(\underline{v}, w)$. □

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) $\lim_{w\to\infty} |b_D(\underline{v}, w) - b_D(\underline{v}, w)| = 0$, where $b_D(\overline{v}, w)$ is the corresponding transfer that solves friendly DG_1's participation constraint, and (2) FG's objective (54) evaluated at $v = \overline{v}$ and $v' = \underline{v}$ is strictly concave in b_1. Thus for any transfer $b^*(\overline{v})$ that solves the associated first-order condition and further satisfies $b^*(\overline{v}) > b_1^D(\overline{v}, w)$, w sufficiently large also implies that $b^*(\overline{v}) > b_1^D(\underline{v}, w)$. □

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*.

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

$$\Pr(v^{\text{med}} \leq \hat{v}(b_1))(1 - F(-(\underline{v} + v_F))) + \Pr(v^{\text{med}} > \hat{v}(b_1))(1 - F(-(\overline{v} + v_F)). \tag{57}$$

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. The derivative of the probability of a date-2 agreement (57) with respect to $\underline{v}$ is:

$$\begin{aligned} &P(\hat{v}(b_1^*))f(-(\underline{v} + v_F)) \\ &\qquad - \left.\frac{\partial P(\hat{v})}{\partial \hat{v}}\right|_{\hat{v}=\hat{v}(b_1^*)} \left(\frac{\partial \hat{v}(b_1^*)}{\partial \underline{v}} + \left.\frac{\partial \hat{v}(b_1)}{\partial b}\right|_{b_1=b_1^*} \frac{db_1^*}{d\underline{v}} \right) (F(-(\underline{v} + v_F)) - F(-(\overline{v} + v_F))). \end{aligned} \tag{58}$$

The first component represents the *direct* effect of a moderation by the hostile party. With probability $P(\hat{v}(b_1^*))$, the hostile party holds office at date 1. For a fixed prospect that it holds power, a higher $\underline{v}$ *raises* the prospect of an agreement by expanding the set of circumstances in which the date-2 bargaining surplus between FG and DG_2 is positive, i.e., $v_F + \underline{v} + \lambda \geq 0$. The second part of the expression captures two *indirect* effects, each of which operates via its

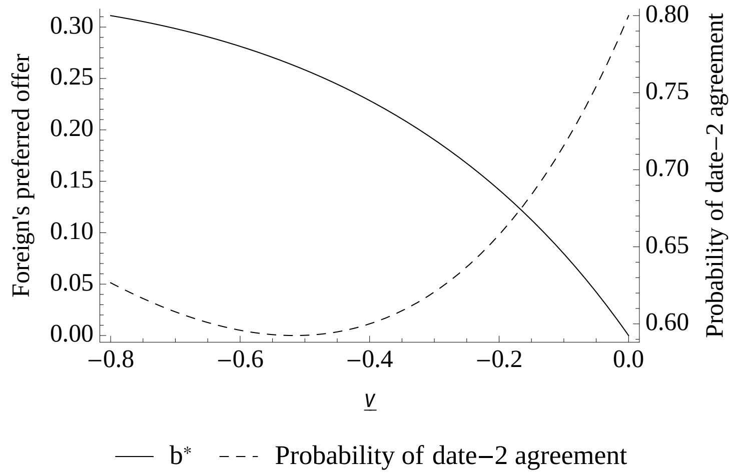


Figure 6: How the probability of a date-2 agreement changes when the *hostile* party becomes more favorable to reform. Parameters are: $\overline{v} = 0$, $\sigma = .8$, $v_F = .8$, $v^e = .3$, $\delta = 1$, $\theta = 1$, $w = 1$, $s_1 = 0$ and $\alpha = \frac{1}{2}$.

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}), (58) 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 6 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 $\delta > 0$, in the remainder of the proof. DG_1's relative value from an agreement with transfer b_1 is

$$\begin{aligned} &(1-\delta)(v_D^1 + b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + V_D(v_D^1, v_D^2, b_1) \Big] \\ -&(1-\delta)0 \qquad\qquad - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) \Big[\mathbf{1}[v_D^2 = v_D^1] w + V_D(v_D^1, v_D^2, s_1) \Big]. \end{aligned} \tag{59}$$

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

$$(1-\delta)(v_F - b_1) + \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, b_1) - (1-\delta)0 - \delta \sum_{v_D^2 \in \{\underline{v}, \overline{v}\}} \Pr(v_D^2) V_F(v_D^2, s_1), \tag{60}$$

which is strictly concave, and which it is easy to show admits a unique $b_F \in (s_1, v_F)$ such that (60) 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 (59) 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 (60) with zero. $\square$

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 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. $\square$

F. Electoral Competition with Platform Commitments.[19] 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 rmodify 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 stricly between the project values of the two polarized 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:

$$\underline{v} - (v_F - s_2) < \underline{v}' < \overline{v}' < \overline{v} - (v_F - s_2). \tag{61}$$

A precise characterization of the platforms is given in the proof. To interpret the conditions in (61), 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. Figure 7 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 $v^e - (v_F - s_2)$.

Proof of Proposition F1. We have that for any platforms v and v', satisfying $v < v'$, the

[19] We thank Gilat Levy, who encouraged us to consider this extension.

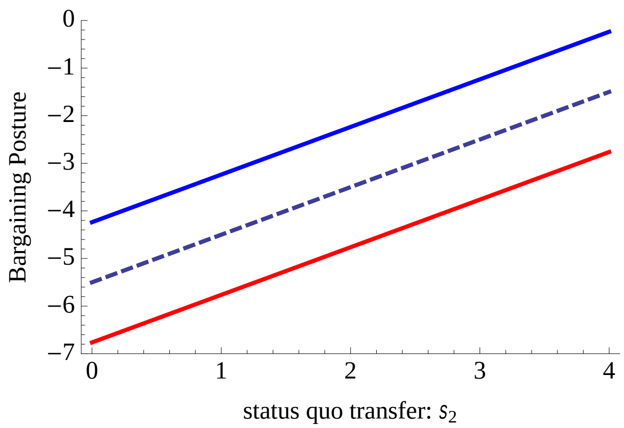


Figure 7: Equilibrium bargaining postures for the friendly (*blue*) and hostile (*red*) parties, with the expected location of the pivotal voter's most preferred bargaining posture (*dashed*), as a function of the date-2 status quo transfer s_2. Parameters are: $\overline{v} = 0$, $\underline{v} = -3$, $v^e = -1.5$, $v_F = 4$, $\sigma = 8$, $\delta \in [0, 1]$, $\theta = 1$ and $\alpha = 8$.

probability with which the party offering platform v is elected is:

$$P(v, v', s_2) = \int_{v^e - \alpha}^{\frac{v+v'}{2} + v_F - s_2} \frac{1}{2\alpha} \, dv^{\text{med}}. \tag{62}$$

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 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

$$\max_{\underline{v}' \in [v_L, v_H]} \; P(\underline{v}', \overline{v}', s_2) V_D(\underline{v}, \underline{v}', s_2)) + (1 - P(\underline{v}', \overline{v}', s_2)) V_D(\underline{v}, \overline{v}', s_2), \tag{63}$$

where

$$V_D(v, \tilde{v}, s_2) = \int_{-(\tilde{v}+s_2)}^{\sigma} (v + s_2 + \lambda) f(\lambda) \, d\lambda + \int_{-(\tilde{v}+v_F)}^{-(\tilde{v}+s_2)} (v - \tilde{v} + \theta(\tilde{v} + \lambda + v_F)) f(\lambda) \, d\lambda, \tag{64}$$

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

$$\max_{\overline{v}' \in [v_L, v_H]} \; P(\underline{v}', \overline{v}', s_2) V_D(\overline{v}, \underline{v}', s_2) + (1 - P(\underline{v}', \overline{v}', s_2)) V_D(\overline{v}, \overline{v}', s_2). \tag{65}$$

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

$$\frac{1}{2\alpha}\frac{1}{2}(V_D(\underline{v}, \underline{v}', s_2) - V_D(\underline{v}, \overline{v}', s_2)) + P(\underline{v}', \overline{v}', s_2)\frac{\partial V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'} = 0. \tag{66}$$

which defines a unique (interior) solution if

$$\frac{1}{2\alpha}\frac{\partial V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'} + P(\underline{v}', \overline{v}', s_2)\frac{\partial^2 V_D(\underline{v}, \underline{v}', s_2)}{\partial \underline{v}'^2} < 0, \tag{67}$$

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

$$\frac{1}{2\alpha}\frac{1}{2}(V_D(\overline{v}, \underline{v}', s_2) - V_D(\overline{v}, \overline{v}', s_2)) + (1 - P(\underline{v}', \overline{v}', s_2))\frac{\partial V_D(\overline{v}, \overline{v}', s_2)}{\partial \overline{v}'} = 0, \tag{68}$$

characterizes the unique interior solution for the friendly party's platform choice $\overline{v}'$. It follows that an 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 (66) and (68). $\square$