

## On the Role of the Governmental Agreement in Breaking Political Deadlocks\*

Robert A.J. Dur and Otto H. Swank

Erasmus University Rotterdam, Tinbergen Institute

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### **Abstract**

Resistance to socially desired reforms may arise from uncertainty about the consequences of reforms at the individual level (Fernandez and Rodrik, 1991). Without a binding commitment, a promise to compensate losers will not raise support for reforms due to a credibility problem. This paper shows that voting simultaneously on several reforms may solve the credibility problem. It is argued that the governmental agreement in the Netherlands has served as a means to vote simultaneously on several reforms and has helped breaking political deadlocks. Moreover, our model provides an explanation for some perceived changes in the Dutch policy making process.

### Address:

Robert A.J. Dur  
Erasmus University Rotterdam H11-8  
P.O. Box 1738  
3000 DR Rotterdam  
The Netherlands  
e-mail: [Dur@tir.few.eur.nl](mailto:Dur@tir.few.eur.nl)  
tel.: +3110-4088923

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## 1. Introduction

The motivation for this paper is the turn in Dutch politics in 1982. At the end of the seventies and in the early eighties, the Netherlands faced some severe economic problems: unemployment increased from 221 thousand to 559 thousand, as a share of national income the budget deficit exceeded ten percent, implying an explosive path of government debt, and government expenditures seemed uncontrollable. Moreover, there was a growing concern about the adverse effects of the tax and social security system on efficiency. In principle, there was consensus among policy makers that the economic problems required major policy adjustments. Unfortunately, policy makers failed to reach agreement as to what policy adjustments had to be made. Neither the central-right wing coalition governing from 1978 to 1981 nor the central-left wing coalition in office in 1981-1982, were able to design policy reforms which gained majority support in parliament.

One of the possible causes of the political stalemate before 1982 is the Dutch party system. Recent studies on political economy suggest that a fragmented party system, like that of the Netherlands, makes legislative support difficult to mobilize (*cf.* Alesina and Drazen, 1991, and Grilli, Masciandaro and Tabellini, 1991).

However, in 1982 the political deadlock was broken. The coalition government consisting of conservatives (VVD) and the christian democrats (CDA) started to implement a policy program laid down in a “governmental agreement”. This governmental agreement described in detail time paths of the budget deficit and the tax burden over the administration’s term. In addition, it described various adjustment programs and how the government would respond to unanticipated events. The content of this governmental agreement deviated from former ones. Before 1982, the governmental agreements described the general objectives of the government and were less precise on policies.

Since 1982, the governmental agreement has played an important role in the coalition formation process. It has changed Dutch policy making in a number of respects. First, ministers have committed themselves to implementing the policies described in the agreement. Second, the agreements have functioned as a voting guide in parliament for the political parties joining the coalition. This has increased party discipline considerably. Since 1982, the main opposition party has usually voted against the reforms proposed by the government, while reforms have been supported by all members of the coalition

parties. Third, once in office, political parties seem to have abandoned their traditional ideological positions. The labour party (PvdA) provides an interesting example. In the early nineties, under a PvdA-CDA government a proposal for a major reform of the social security system was approved by CDA and PvdA in parliament, despite determined opposition of the PvdA to earlier, less far-stretched, reforms under a VVD-CDA government. Finally, after 1982 fluctuations in electoral support to parties have become more volatile. Moreover, data on vote intentions reveal mid-term cycles after 1982 while such cycles are not present before 1982.

The objective of this paper is twofold. First, we analyze the potential role of governmental agreements in breaking political deadlocks, and second, we argue that the increased role of governmental agreements in Dutch politics may help explain the changes in the Dutch policy making process mentioned above.

Our analysis builds on Fernandez and Rodrik (1991), who show that resistance to socially desired reforms may arise from uncertainty about the consequences of reforms at the individual level. Individual-specific uncertainty may make that *ex ante* a majority expects to lose from a reform, and hence votes against it, while *ex post*, a majority would benefit from implementing the reform. We advance a simple model in which various types of reforms exist, none of which gain majority support due to individual-specific uncertainty about their distributive consequences. We will argue that without a binding commitment, compensation of the losers by the winners through direct side payments does not persuade the potential losers to support the reform, because of a credibility problem. Once the reform is implemented and the winners and losers are known, there is no incentive any more for the majority to compensate the losers. One way to avoid this problem is to compensate losers in the form of a complementary reform. If both reforms are supported by a majority *ex post*, bundling reforms increases the chances of breaking political deadlocks. In our model, the governmental agreement serves as a means of credibly combining various types of reforms. The analysis also provides insight into how a package of reforms should be designed. In particular, we show that on aggregate the package of reforms must yield a positive sum to the constituents of the coalition parties. Hence, adopting complementary projects in a governmental agreement renders projects politically feasible for which direct side payments would be a solution if they were credible.

Though this paper deals with the Netherlands, we believe that its scope is much broader.

Governmental agreements are a typical feature of the government formation process in western multiparty democracies (*cf.* Van Roozendaal, 1996). However, the role of governmental agreements has been largely remained unstudied. Our results are also, or perhaps particularly, relevant for the design of adjustment programs in developing countries and formerly socialist countries. Like in the Netherlands before 1982, in these countries adjustment programs, though socially desired in the long-run, are often politically difficult to launch. Success of implementing adjustment programs heavily relies on their credibility and the ability of the government to mobilize political support (Haggard and Webb, 1993, and Rodrik, 1996). Both elements play an essential role in our analysis.

This paper is organised as follows. The next section reviews the Fernandez-Rodrik argument within the framework of a three party system. Section 3 formally describes the characteristics of welfare-enhancing projects on which political stalemate may be reached. Next we analyse in section 4 the potential role of the governmental agreement in breaking political deadlocks. Section 5 examines how the increased role of the governmental agreement might have affected government support of the electorate and provides some empirical evidence based on poll data on voter behaviour. Finally, section 6 offers some concluding remarks.

## **2. The Fernandez-Rodrik Argument**

Our analysis of the potential role of governmental agreements in breaking political deadlocks builds on Fernandez and Rodrik (1991). They address the question of why governments sometimes fail to adopt policies that are generally seen as efficiency-enhancing. Fernandez and Rodrik provide an explanation for this puzzle, which relies on uncertainty concerning the identity of winners and losers from reform. The key idea behind their explanation can be illustrated with the following example.

Suppose a three party system ( $G_1$ ,  $G_2$  and  $O$ ). The parties  $G_1$  and  $G_2$  form a coalition government. Both  $G_1$  and  $G_2$  have 40 percent of the seats in parliament,  $w$ . Party  $O$  has the remaining 20 percent of the seats,  $(1-2w)$ . Parliament is assumed to be a

mirror of the electorate. The government is considering putting forward a proposal to parliament to adopt a certain project. The project has the following distributional effects: 1. The project yields a certain benefit of 10 ( $B = 10$ ) to the constituents of party  $G_1$ ; 2. The project yields a certain loss of 5 ( $L = 5$ ) to the constituents of party  $O$ ; 3. The constituents of party  $G_2$  do not know whether they will end up being losers or winners. Each citizen who traditionally votes for party  $G_2$  faces a probability of 0.3 ( $p$ ) gaining 10, and a probability of 0.7 ( $1-p$ ) losing 5.

What will parliament decide under majority rule? Assuming risk neutrality, voting behaviour in parliament depends on members' expected net gain (ENG). Obviously, all members of party  $G_1$  support the proposal of undertaking the project, while all members of party  $O$  vote against the project. The ENG of members of party  $G_2$  is negative [ $pB + (1-p)L = -0.5$ ]. Therefore, a majority of parliament prefers the status quo to adoption of the project, and the project is rejected by parliament.

However, if the project were undertaken, a majority of the electorate ( $40 + 0.3 \cdot 40 = 52$  per cent) would benefit from the project. Furthermore note that in our example the project is globally efficient (aggregate benefits exceed aggregate costs). This suggests that the winners of the project may persuade the losers of the project by promising side-payments. However, these side payments raise a credibility problem. Once the project is undertaken, there is no incentive for the winners anymore to compensate the losers.

### 3. Four Types of Projects

In the above example, individual specific uncertainty creates a gap between *ex ante* and *ex post* support for a project. It is evident that whether or not a project gets *ex ante* and/or *ex post* majority support depends on the number of seats parties have in parliament

( $w_1$ ,  $w_2$  and  $o$ ), the magnitude of the benefits ( $B$ ) and losses ( $L$ ), and the probabilities that individuals end up being winners ( $p$ ) or losers ( $1-p$ ). In this section, we examine how *ex ante* and *ex post* support depend on these parameters (see also Pinto Barbosa, 1994). In doing this, we make the following assumptions. As in the example, we assume that there are three parties, of which  $G_1$  and  $G_2$  have an equal share of seats in parliament,  $w$ , and form a majority coalition,  $2w > \frac{1}{2}$ .<sup>1</sup> Moreover, we assume that only the constituents of party  $G_2$  are uncertain about winning or losing from the project, while the constituents of party  $G_1$  are certain winners and those of party  $O$  are certain losers.<sup>2</sup>

*Ex ante support.* Because the project benefits the constituents of  $G_1$  and hurts the constituents of the opposition party, *ex ante* support for the project solely depends on support of the members of party  $G_2$ . Each member of parliament belonging to party

$G_2$  supports the project if his  $ENG > 0$ . Thus the condition for *ex ante* support is:

$$pB - (1 - p)L > 0, \text{ implying } \frac{L}{B} < \frac{p}{1 - p} \quad (1).$$

Equation (1) shows that higher values of  $p$  and lower values of  $\frac{L}{B}$  increase the chance

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<sup>1</sup>In the Netherlands, the Christian Democratic Party (CDA) and the Labour Party (PvdA) have approximately had the same number of seats in parliament. Thus our calculations seem most relevant for CDA-PvdA coalitions. However, since recently, the liberal party (VVD) is of roughly the same size as the CDA and the PvdA.

<sup>2</sup>Of course these assumptions are not without loss of generality. However, relaxing them makes the results less transparent, while the spirit of the results remains unaffected.

of *ex ante* support. Note that *ex ante* support is independent of  $w$ .

*Ex post support.* *Ex post* support is equal to the number of citizens ending up winning from the project relative to the number of citizens ending up losing from the project. All constituents of party  $G_1$  and proportion  $p$  of of the constituents of party  $G_2$  will end up winning from the project. Thus the condition for *ex post* majority support is given by:

$$w + pw > \frac{1}{2} \quad (2).$$

Clearly, *ex post* support depends positively on both  $w$  and  $p$ . Note that  $\frac{L}{B}$  does not affect

*ex post* support.

**Table 1: Projects distinguished by *ex ante* and *ex post* majority support**

	Majority support <i>ex ante</i> (condition (1) satisfied)	No majority support <i>ex ante</i> (condition (1) not satisfied)
Majority support <i>ex post</i> (condition (2) satisfied)	<i>Projects of the first type:</i> Projects benefiting a majority that will be implemented.	<i>Projects of the fourth type:</i> Projects benefiting a majority that will not be implemented.
No majority support <i>ex post</i> (condition (2) not satisfied)	<i>Projects of the third type:</i> Projects hurting a majority that may be implemented, but will subsequently be repealed.	<i>Projects of the second type:</i> Projects hurting a majority that will not be implemented.

With equation (1) and (2) we can distinguish four types of projects, which are presented in Table 1. First, there are projects which are approved by parliament (*ex ante* support), and benefit a majority of citizens (*ex post* support). Second, there are projects for which neither *ex ante* support nor *ex post* support exists. Probably these two types of projects are most common, but for the purposes of the present paper they are least interesting. Third, there are projects which get majority support *ex ante*, but which hurt the majority of the people. This type of projects may be implemented, but a proposal to repeal them will be

approved by parliament. Fourthly, there are projects which do not get majority support, but if implemented would benefit the majority of people.

At the end of the seventies and in the early eighties, there was a broad consensus in the Netherlands that structural adjustments were required. Sticking to a predetermined path of the budget deficit and the tax burden, reforms in the social security system and health care system, a general tax reform, and a stronger environmental policy were all regarded as necessary, but before 1982 proposals in these areas could not count on majority support in parliament. Since most of these policy adjustments have important distributional effects which are subject to individual specific uncertainty, we believe that many of them belong to the fourth type of projects discussed above. The next section describes how we believe these political deadlocks were broken after 1982.

#### **4. The governmental agreement as a means of breaking political deadlocks**

As discussed in the introduction, since 1982 governmental agreements have played an important role in Dutch politics. Basically, a governmental agreement is a document drawn up by the political parties forming the coalition government. It describes in detail the coalition parties' intentions as to future policies. Governmental agreements are determined before ministers are appointed. By accepting office, ministers commit themselves to carrying out the plans laid down in the governmental agreement. For the representatives affiliated with the coalition parties, the governmental agreement has almost developed into the eleventh commandment. Members of parliament, who belong to the political parties joining the coalition, use the governmental agreement as a binding voting guide.

Obviously, there are costs attached to such a strong commitment to policy plans. Most importantly, it reduces the ability of the government to react to unforeseen events. The question arises why policy makers incur these costs. In this section, we argue that governmental agreements have enabled policy makers to undertake a set of projects, which individually could not count on majority support, but which were regarded as welfare enhancing (project IV in Table 1). The idea behind our argument is simple. As discussed in the previous sections, an undesirable bias towards the status quo may exist as the result of a time consistency problem. Promises to compensate losers after the project is undertaken are not credible. A governmental agreement may solve this credibility problem by adopting



a complementary project, which also lacks majority support *ex ante*, but would get majority support *ex post* if it were undertaken.

To formalise the argument, suppose that there are two projects. For each individual project condition (1) is violated but condition (2) is satisfied. Thus each project will be rejected by parliament. The characteristics ( $L$ ,  $B$ , and  $p$ ) of the projects are as in section 2. The projects differ in that project 1 benefits the constituents of party  $G_1$  with certainty, while project 2 benefits the constituents of party  $G_2$  with certainty. The constituents of party  $G_1$  ( $G_2$ ) are uncertain about ending up as winners or losers when project 2 (1) is undertaken.

Party  $G_1$  and  $G_2$  form a majority coalition government. The governmental agreement enables the coalition parties to submit the two projects for approval by parliament simultaneously.<sup>3</sup> Does parliament approve the governmental agreement? The answer to this question depends on both *ex ante* and *ex post* evaluation of the plans.

Let us first consider *ex ante* approval. Since the two projects are assumed to be symmetric (or perfectly complementary), the ENG from the set of projects is equal for all constituents of party  $G_1$  and  $G_2$  :  $B + pB - (1 - p)L$  . Therefore, the two parties support the governmental agreement if:

$$\frac{L}{B} < \frac{1 + p}{1 - p} \quad (3).$$

Clearly, condition (3) is less restrictive than (1). Hence, *ex ante*, a set of two complementary projects is more likely supported than a single project. From (3) it is easy

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<sup>3</sup>Recall that the governmental agreement serves as a binding voting guide for the members of the coalition parties in parliament.

to see that if  $\frac{L}{B} < 1$ , a set of two projects always gets *ex ante* majority support. The

reason for this is that in those cases, all constituents affiliated with the coalition parties will certainly gain from undertaking the two projects, the minimum gain being  $B - L$ . If

$\frac{L}{B} > 1$ ,  $p$  must be large enough in order to obtain majority support for the set. Note that

condition (3) implies that a set of two projects only obtains majority support if it yields a positive sum on aggregate to the constituents of the coalition parties. Thus, adopting complementary projects in a governmental agreement renders projects politically feasible for which direct side payments would be a solution if they were credible.

The condition for *ex ante* majority support can also be derived for  $n$  complementary projects. First suppose that the governmental agreement includes an even number of complementary projects. If both parties benefit with certainty from an equal number of projects, then the condition for *ex ante* majority support is the same as (3). The reason for this is that doubling the number of projects doubles the ENG without affecting its sign (a proof is provided in the appendix). Next suppose an uneven number of projects, with

$\frac{1}{2}(n+1)$  projects benefiting with certainty  $G_1$  constituents, and  $\frac{1}{2}(n-1)$  projects

benefiting with certainty  $G_2$  constituents. Analogous to the case of one project, *ex ante*

majority support now solely depends on support of the constituents of party  $G_2$ . The

appendix proves that the condition for *ex ante* majority support is given by:

$$\frac{L}{B} < \frac{(n-1) + (n+1)p}{(n+1) - (n+1)p} \quad (4).$$

Equation (4) shows that the higher the number of projects,  $n$ , the less restrictive is the condition for *ex ante* majority support. Furthermore note that (4) is more restrictive (regardless of  $n$ ) than (3), which implies that if we add a project to a governmental

agreement including an even number of reforms, the probability of *ex ante* majority support declines. Only if  $n$  goes to infinity, (4) reduces to (3). In essence (3) and (4) indicate that the more equally the net expected gains from a set of projects are distributed among the coalition parties, the higher are the chances of *ex ante* majority support.

Now consider the question whether the governmental agreement and its components obtain *ex post* majority support. *Ex post* majority support is important for two reasons. Firstly, without *ex post* majority support a proposal to repeal the projects will be approved by parliament. Parliament is likely to prefer the status quo to a cycle status quo - policy innovations - status quo (*cf.* Fernandez and Rodrik, 1991, p. 1154). Thus lack of *ex post* majority support jeopardises *ex ante* majority support. Secondly, *ex post* majority support for any single project and any combination of projects is required to render the governmental agreement time consistent. If a complementary project persuades a political party to support the governmental agreement, that party must be confident that the project is not repealed by any other future coalition government. Otherwise, the complementary project does not compensate losses from other projects. This is why we have not allowed the governmental agreement to include projects other than projects of the fourth type (Table 1). Projects of the first type are not compensating, because if they are proposed they are undertaken anyway. The second type of projects is not relevant, while the third type of projects does not compensate, because they will be repealed after implementation (or by a new government).<sup>4</sup>

Let us start with determining the condition for *ex post* majority support for the governmental agreement if  $n=2$ . Since the only relevant projects in a governmental agreement are projects of the fourth type, individually each project obtains majority support *ex post*. The question remains whether a majority in parliament eventually benefits from undertaking two complementary projects. Clearly, if  $\frac{L}{B} < 1$ , all  $G_1$  and  $G_2$

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<sup>4</sup>In principle, the coalition parties may also use the governmental agreement to obtain majority support for projects of the second type. However, because these type of projects do not get *ex post* majority support, they are likely to be repealed by a next coalition government. In fact, as to projects of the second type, the well known problem of logrolling arises (see Mueller, 1989, p. 82-87).

constituents eventually benefit from undertaking the projects, as each constituent's minimum gain equals  $B - L$  (recall that together  $G_1$  and  $G_2$  form a majority in parliament,  $2w > 1/2$ ). If  $\frac{L}{B} > 1$ , *ex post* majority support is not guaranteed. Then, only

a fraction  $p$  of both  $G_1$  and  $G_2$  constituents eventually benefits from the two projects.

Thus for  $n=2$ , the condition for *ex post* majority support is:

$$2w > 1/2 \quad \text{if} \quad \frac{L}{B} < 1 \quad (5a)$$

$$2pw > 1/2 \quad \text{if} \quad \frac{L}{B} > 1 \quad (5b).$$

It is easy to see that (5a) is less restrictive than (2), while (5b) is more restrictive than (2).

Equation (5a) implies that if  $\frac{L}{B} < 1$ , *ex post* majority support for the bundle of two

projects is guaranteed.<sup>5</sup> Equation (5b) implies that a combination of two projects with

$\frac{L}{B} > 1$  may lack *ex post* majority support, although each project individually receives *ex*

*post* majority support. To put it differently, two projects of the fourth type may together form a project of the third type. In such a case, the governmental agreement does not solve the time consistency problem, so that the political deadlock is not broken.

If the governmental agreement contains more than two projects, the same kinds of

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<sup>5</sup>Recall, however, that *ex post* majority support for each individual project is still required. Hence, condition (2) must be satisfied.

results arise. *Ex post* majority support is still guaranteed if  $\frac{L}{B} < 1$ . Increasing the number

of projects included does not broaden the scope for successfully implementing projects with  $\frac{L}{B} > 1$  by means of the governmental agreement. With more than two projects included,

condition (5b) must still be satisfied in order to render the governmental agreement time consistent. Hence, if projects do not satisfy condition (5b), the political deadlock is not broken, even if a large number of projects are included in the governmental agreement.<sup>6</sup>

In summary, in this section we have shown that governmental agreements may help to break political deadlocks. A governmental agreement which combines complementary projects with  $\frac{L}{B} < 1$  will be approved by parliament, and will not be repealed after

implementation. This result is consistent with the empirical finding reported in studies on reforms in developing countries and former socialistic countries that compensation in the form of complementary reforms increases the chances of successful reform (Williamson and Haggard, 1994). Furthermore, our analysis has pointed out that the more equal the net

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<sup>6</sup>It can even be shown that for projects with a high  $\frac{L}{B}$  ( $\frac{L}{B} > n$ ), the probability of *ex post* majority support declines as the number of projects included ( $n$ ) increases. Intuitively, given that the probabilities to gain from an individual project are independent, it holds that the larger the number of projects included, the higher the chance of losing from at least one project. With high values of  $\frac{L}{B}$ , losing from one project means ending up as a net loser from the bundle of projects. Hence, in these cases it holds that the larger the number of projects included, the larger the proportion of the population ending up as net losers. Details of the algebra are available from the authors.

expected gains are distributed among the constituents of the coalition parties, the sooner the governmental agreement obtains *ex ante* support. Finally, we have found that governmental agreements are less useful for breaking political deadlocks if  $\frac{L}{B} > 1$ . Then

a governmental agreement increases *ex ante* support, but decreases *ex post* support.

As discussed in the introduction, since 1982 the policy making process in The Netherlands has changed in several respects. Some of these changes can be explained by the increased role of the governmental agreement. From the above analysis it emerges that parties' commitment to adopting a set of projects requires party discipline, and that ministers commit themselves to carrying out the plans described in the governmental agreement. A coalition party may uniformly vote for projects from which its constituents expect to suffer in the expectation that projects from which they benefit are supported by the other coalition party. This is also the reason why after 1982, voting behaviour in parliament depends heavily on whether members belong to an opposition party or to a party joining the coalition. In opposition there is no reason why a party would support a project hurting its constituents, while as a coalition party, it realizes that voting for projects hurting its constituents is the price of obtaining support for projects benefiting its constituents.

## **5. Governmental agreements and voters**

In the previous sections, we have examined how governmental agreements have enabled administrations to obtain majority support for undertaking projects of the fourth type. In this section, we examine the consequences of implementation of a set of projects of the fourth type for government support of the electorate.

In economic models of voter behaviour, people make vote choices by estimating what their expected utility will be under alternative incumbencies. Economic models differ in their assumptions as to how expectations are formed. Broadly, two approaches can be distinguished. In the first approach, voters base their expectations on what administrations say they will do (prospective evaluations). In the context of the present paper, this

approach implies that the governmental agreement is an important document, as it describes in detail the policies the administration intends to implement. In the second approach, voters form expectations on the basis of the past (economic) performance under the administration. The idea behind this approach is that the performance contains information about the competence of the administration. This approach has led to the retrospective voter model, in which election outcomes depend on how well citizens have fared under a given administration (see e.g. Ferejohn, 1986).

In principle, the two approaches to voter behaviour are not mutually exclusive (*cf.* Swank, 1996). There is no reason that in forming expectations voters would only rely on policy plans or would only consider the performance of a given administration. However, at the beginning of an administration's term, when the administration has not yet put a stamp on policy, prospective evaluations are likely to dominate retrospective evaluations. For little information about the record of the administration is then available. As time elapses, more information becomes available about the consequences of the administration's policies, and retrospective evaluations become more important. At the end of the administration's term, when all plans are carried out, retrospective evaluations are likely to dominate prospective evaluations.

To model how governmental agreements affect government support, we make the following assumptions. First, we assume that the governmental agreement includes two complementary projects of the fourth type with  $\frac{L}{B} < 1$ .<sup>7</sup> Next, we assume that the

consequences of the first project become visible in the middle of the administration's term, and that the consequences of the second project become visible at the end of the administration's term. This difference in timing may result from the fact that the first project is earlier undertaken than the second project. Alternatively, the consequences of the

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<sup>7</sup>The results obtained below are qualitatively the same in case of three projects. If more than three projects are included, the same results may arise, depending on the precise timing of the consequences becoming visible.

second project may take longer to unfold.<sup>8</sup> Furthermore, we assume that at the beginning of the administration's term ( $t=0$ ), voters are only concerned with the expected consequences of the governmental agreement, so that government support equals *ex ante* support for the bundle of two projects. In the middle of the administration's term ( $t=1/2$ ), voters evaluate how they have fared under the first part of the administration's term, and how they expect to be affected by the second project. At the end of the administrations term ( $t=1$ ), the only thing that counts is whether the two projects have made voters better-off or worse-off. To calculate government support (*govsup*) we use the following equation:

$$govsup_t = (1 - t)pop_t^{EA} + tpop_t^{EP} \quad (6)$$

where  $t = \{0, 1/2, 1\}$ ,  $pop_t^{EA}$  is the proportion of voters expecting to benefit from the (remaining) projects described in the governmental agreement, and  $pop_t^{EP}$  is the proportion of voters having benefited from the project(s) adopted.

At the beginning of the administration's term, all constituents of the coalition parties expect to benefit and the constituents of the opposition party expect to suffer from carrying out the governmental agreement. Thus at  $t=0$ , government support equals  $2w$ . At  $t=1$ , all constituents of the coalition parties have experienced that the implementation of the two projects have made them better-off. Again government support equals  $2w$ . At  $t=1/2$ , government support has a retrospective and a prospective component. The constituents of party  $G_1$  have benefited from the adoption of the first project, but expect to suffer from the consequences of the second project. In contrast, a proportion  $1 - p$  of the constituents of party  $G_2$  has suffered from the first project, but all constituents of party  $G_2$  expect to benefit from the second project. Thus total *ex ante* support equals  $w$ , and total *ex post*

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<sup>8</sup>It is worth noting that the precise timing is not essential. What matters is that the consequences of the two projects do not become visible at exactly the same time.



support equals  $w + pw$ . Through (6) this implies that  $govsup = w + \frac{1}{2}pw$ . Since  $w + \frac{1}{2}pw < 2w$ , government support exhibits a mid-term cycle.

Does data on government support exhibit a mid-term cycle after 1982? To answer this question, we have examined government support for two administrations being in office before 1982, and for three administrations being in office after 1982.<sup>9</sup> A simple way of detecting a mid-term cycle is by estimating the following equation:

$$govsup_t = \alpha_1 time + \alpha_2 time^2 + \alpha_3 \quad (7)$$

where  $govsup_t$  is the proportion of voters who would vote for a coalition party if elections were held in period  $t$ , and  $time$  is the number of quarters an administration is in office. The occurrence of a mid-term cycle requires at least that  $\alpha_1 < 0$  and  $\alpha_2 > 0$ .

Table 2 reports the estimates of (7).

**Table 2: Estimation results of the equation for government support**

Period government	1973.2-77.1 Central-left	1978.1-81.2 Central-right	1982.4-86.2 Central-right	1986.3-89.2 Central-right	1989.4-94.2 Central-left
$\alpha_1$	-0.0031 (0.008)	-0.0036 (0.005)	-0.0266 (0.003)	-0.0219 (0.003)	-0.0349 (0.004)
$\alpha_2$	0.0001 (0.0004)	-0.0000 (0.003)	0.0015 (0.0002)	0.0012 (0.0002)	0.0011 (0.0002)
$\alpha_3$	0.477 (0.030)	0.381 (0.013)	0.427 (0.012)	0.410 (0.012)	0.598 (0.018)
minimum $t$	18	-	9	9	16
$R^2$	0.028	0.570	0.805	0.942	0.922

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<sup>9</sup>To determine cycles in government support, we need poll data on voter behaviour. Our data set (1971.1-1994.4) includes voters' responses to the question: "If elections were held today, which party would you vote for?". We have restricted the analysis to administrations, which were in office for more than eight quarters.

Note: Standard errors are in parentheses. “Minimum t” is number of quarters after installation of administration at which government support is at a minimum (calculated from estimates). All estimates are based on NIPO data, Steinmetz Archiv XYX.

The estimates of (7) for the two administrations before 1982 do not provide evidence for the occurrence of a mid-term cycle. The estimates of  $\alpha_1$  and  $\alpha_2$  are not significant at conventional levels, and for the central-right administration  $\alpha_2$  has the wrong sign. In contrast, the estimates of  $\alpha_1$  and  $\alpha_2$  for the three administrations after 1982 provide support for a mid-term cycle. All estimates of  $\alpha_1$  and  $\alpha_2$  have the proper signs and are highly significant. The implied mid-term cycles for the two central-right administrations almost exactly accord with the predictions of (6). In the first part of the administration’s term, government support declines, reaching a minimum in the middle of the administration’s term (ninth quarter). In the second part of the administration’s term, government support rises. After four years, government support almost returns to its initial level. The development of government support implied by the estimates for the central-left administration (1989.4-94.2) is not fully consistent with the predictions of (6). Government support declines after installation of the administration, but reaches its minimum just before the end of the administration’s term. One reason that government support did not rise at the second part of the administration’s term might be that a controversial adjustment program (a reform of the social security system concerning the disabled) was implemented at the end of the administration’s term.

Of course, the estimates presented in Table 2 do not allow a firm conclusion that governmental agreements have induced a mid-term cycle in government support. The limited number of administrations is one reason to refrain from such strong conclusion. Moreover, there might be alternative explanations for the occurrence of a mid-term cycle after 1982. However, alternative existing explanations, such as offered by the political

business cycle theory (Nordhaus, 1975) and the theory of divided government (Alesina and Rosenthal, 1995, 1996), seem highly implausible, because they cannot explain why mid-term cycles did not occur before 1982. Moreover, the theory of divided government is implausible as it does not fit with Dutch political institutions. In contrast to voters in the United States, in the Netherlands voters do not directly choose the executive. If the political business cycle model were valid this would also imply cycles in economic variables. However, no evidence exist for political business cycles in economic variables (Alesina and Roubini, 1992).

Though the evidence for effects of governmental agreements on government support is at best illustrative, it is worth to dwell on its implications. The above analysis indicates that by carrying out a governmental agreement, government support may decline for some time. When part of the consequences of the set of policies are known, some groups in society experience that they have been hurt by the policies, while other groups have nothing to gain from continuation of the coalition government. Only when all consequences have become visible, all constituents of the coalition parties will recognize that the implementation of the set of projects has made them better-off. For the three administrations after 1982, the decline in government support was substantial. On average, after nine quarters in office, government support was about 70 percent of initial government support. From this it follows that political parties will be reluctant to include projects in a governmental agreement of which the benefits are reaped after the next elections. For inclusion of such projects almost amounts to political suicide. Hence, the extent to which a governmental agreement can be used as a means to break political deadlocks might depend on government durability. Only if an administration expects to be long enough in office to reap the benefits from a project, the administration is willing to undertake it. Against this background, our results are in line with empirical studies which suggest that short-lived governments have higher public debt than long-lived governments (see for example Grilli, Masciandaro and Tabellini, 1991). In the three governmental agreements after 1982, fiscal discipline played a very important role.

## **6. Conclusions**

Uncertainty about the consequences of reforms at the individual level may lead to political deadlocks: reforms which would benefit a majority if they were implemented possibly do not obtain majority support when voted on. In this paper we have shown that these political deadlocks may be broken by voting on a package of reforms.

In the spirit of this result, we have examined the role of governmental agreements in the Dutch policy making process after 1982. The governmental agreement is a document, written before the administration takes office, which describes in detail the policy adjustments the government intends to make. The coalition parties commit themselves to carrying out the plans laid down in the governmental agreement. This makes that the governmental agreement can be regarded as a means of credibly combining various reforms.

Governmental agreements have altered Dutch policies in several respects. First of all, they have enabled the government to get parliamentary support for many controversial policy programs, and second, they have increased party discipline in parliament. Both changes in Dutch politics are directly related to the purpose of governmental agreements: breaking political deadlocks. Furthermore, we have argued that governmental agreements have led to a cycle in government support of the electorate. At the beginning of an administration's term, a majority of the voters expects to benefit from carrying out the plans laid down in the governmental agreement. When part of the program is carried out, some groups in society experience that they have been hurt by the policies, while other groups have nothing to gain from continuation of the coalition government. As a consequence, government support declines. At the time the consequences of all projects have become visible, most voters will recognize that they have benefited from the governmental agreement. Then government support is high again. The cycle in government support induced by governmental agreements has consequences for the type of projects policy makers are willing to include in a governmental agreement. Provided that political parties care about election outcomes, political parties are only willing to include projects in the governmental agreements which consequences unfold within the administration's term. This leads to the conclusion that the extent to which governmental agreements are a suitable means for breaking political deadlocks depends on government duration.

## Appendix: Proof of the condition for *ex ante* majority support for $n > 2$

Parties calculate the ENG of the complete set and support it if  $ENG > 0$ . Considering a set of  $n$  projects, with  $n$  being an even number, each party benefits with certainty from  $\frac{n}{2}$  projects, while it is uncertain with respect to the other half of the projects included. Hence, *ex ante* majority support for a set containing an even number of projects is obtained if:

$$\frac{n}{2} B + \frac{n}{2} (pB - (1-p)L) > 0 \quad (\text{A.1})$$

which is equal to (3) in the text. If an uneven number of projects are included, *ex ante* majority support relies on the sign of the ENG of the party benefiting with certainty from  $\frac{n-1}{2}$  projects, while being uncertain with respect to  $\frac{n+1}{2}$  projects. Hence, a set

containing an uneven number of projects obtains majority support *ex ante* if:

$$\frac{n-1}{2} B + \frac{n+1}{2} (pB - (1-p)L) > 0 \quad (\text{A.2})$$

which can be written as (4) in the text.

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