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Nested Games and Rationality

This book analyzes cases in which an actor confronted with a series of choices does not pick the alternative that appears to be the best. In the course of the book, the reader will see that British Labour party activists who consider their standing MP too moderate may vote to replace her, although that choice may lead to the loss of a seat for the Labour party; that Belgian elites who are considered in the consociational literature to be accommodating and compromising in character sometimes initiate political conflict; and that French political parties in certain constituencies do not support their coalition partner, leading their own coalition to defeat.

Why are situations in which an actor chooses an alternative that appears to be against her own interests, or not the best she can do under the existing circumstances, intriguing? Why do they demand explanation? Choices that do not appear to be the best an actor can do are puzzling because most observers assume (at least implicitly) that people try to behave in ways that maximize the achievement of their presumed goals, that is, they make optimal choices. The goal of this book is to provide a systematic, empirically accurate, and theoretically coherent account of apparently suboptimal choices. The following examples illustrate the importance and frequence of apparently suboptimal choices in politics.

I. Some Apparently Suboptimal Choices

Urho Kekkonen was first elected president of Finland in 1956. His presidency was so successful that he occupied the office for twenty-

five years. It was, according to Duverger (1978, 63), "the longest and most powerful presidency in Finnish history." What is interesting for our purposes is how this presidency became possible. Therefore, I examine the preferences and behavior of the actors involved in the 1956 Finnish presidential election.

According to Finnish law, presidential elections are conducted by a special three hundred–member electoral college. An election may require two rounds if no candidate gains a majority of the votes. The first two ranking candidates then compete in a second round, assuring a majority vote for the winner.

In 1956, three candidates participated in the first round: the agrarian Urho Kekkonen, the Socialist Karl-August Fagerholm, and the incumbent conservative Juo Kusti Paasikivi. The most challenging opponent for Kekkonen, who had the support of the Communist party, was the conservative Paasikivi. One would expect the Communists to support Kekkonen in the first round with all their fifty-six votes. Instead, only fourteen Communists cast their votes for Kekkonen; the majority (forty-two out of fifty-six) voted for the Socialist candidate. Was this a split inside the Communist party? It was not; the Communists disliked Fagerholm intensely.

Why did most of the Communists choose not to support their preferred candidate, Kekkonen, that is, why did they choose suboptimal behavior? In order to understand the logic of the Communist vote, one must consider the full story of the 1956 election. Paasikivi was eliminated in the first round with 84 votes, against 114 for Fagerholm and 102 for Kekkonen. In the second round, when Kekkonen faced Fagerholm, the Communists voted exclusively for the former. Kekkonen was elected with 151 votes; Fagerholm was defeated with 149.

Although the Communists preferred Kekkonen, they voted for Fagerholm in the first round in order to eliminate the more threatening Paasikivi from the race. The Communists misrepresented their preferences in the first round to promote their most preferred outcome in the second round. The Communists understood that the supposed question of the first round—"which one of the three candidates do you prefer?"—was immaterial. First round voting was a path leading to the second round and to a competition between either Kekkonen and Paasikivi or Kekkonen

and Fagerholm. Given that Kekkonen could defeat Fagerholm but not Paasikivi in the last round, his supporters took the necessary steps to assure the final victory of Kekkonen: they eliminated from the last round Kekkonen's most dangerous opponent, Paasikivi.

An actor votes strategically or sophisticatedly (as opposed to sincerely) if in one or more rounds of a series of votes, she votes against her preferences in order to assure a more preferred final outcome. According to this definition, the Communists voted strategically in 1956. Had the Communists voted sincerely, Kekkonen would have received 144 votes in the first round, Paasikivi, 84, and Fagerholm, 72. However, in the succeeding round, in which Kekkonen would have faced Paasikivi, Paasikivi would have won the election. Thus, the Communists' behavior, which was surprising at first glance, turns out to be optimal upon closer consideration. It was, in fact, a manifestation of strategic voting.

This is the end of the factual story; however, this is not the end of the conceptual investigation. Farquharson (1969) traced sophisticated voting back to Pliny the Younger, and Gibbard (1973) found that strategic voting is possible in all resolute electoral systems.[1] The possibility of altering outcomes through sophisticated voting leads to a new series of questions. Was strategic voting possible for the Socialists as well as the Communists? If so, could the Socialists have voted in such a way as to prevent Kekkonen from getting elected?

The answer to both questions is affirmative. The Socialists also could have voted strategically and prevented the election of Kekkonen. In fact, if they had withdrawn their candidate in the first or second round, the duel between Kekkonen and Paasikivi would have ended in Kekkonen's defeat, as the Socialists would have wished in such a case. Why didn't they follow such a strategy? If strategic voting for the Communists was not the mistake it appeared at first glance, but rational (that is, optimizing) behavior, and if strategic voting was available to the Socialists, then the Socialists chose a suboptimal option: to vote sincerely. Why?

To vote strategically, Socialist leaders would have had to explain to their own party activists and voters why they were with-

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1. Resolute electoral systems are those that exclude ties. For a similar proof that does not require resoluteness, see Schwartz (1982).

drawing their quite successful candidate—a difficult task. This constraint meant the Socialist leadership was involved in two different games simultaneously. In the parliamentary arena, where the president of Finland was to be decided, strategic voting was the optimal choice. In the internal (party) arena, however, where maintaining the allegiance of activists and voters was at stake, sophisticated voting was not possible. When the consequences of strategic voting in both arenas were considered together, strategic voting ceased to be optimal.

The situation was different for the Communists for two reasons. First, Kekkonen was not the Communist candidate, but an agrarian one, so the Communists did not have to explain why they did not vote for their own candidate. Second, Communist parties all over the world (at least in 1956) were known for their observance of the principle of "democratic centralism," which prescribes obedience once a decision is made. Democratic centralism minimizes internal discord and provides the leadership with necessary freedom of movement. So, although the Communists also were involved in games in multiple arenas, the constraints in the internal arena were not important, and the optimizing choice in the parliamentary arena was the optimal strategy overall.[2]

This story presents a series of puzzles. In the beginning, the Communists appeared to behave in a suboptimal way. Once their behavior was explained as strategic voting, the question changed to why the Socialists voted sincerely and thus behaved suboptimally. Once the Socialist behavior became intelligible, that is, when it was explained as optimal behavior, then the question shifted to why the two parties behaved differently, why optimal behavior for one party was suboptimal for the other.

The puzzles presented in the Finnish situation are not isolated. Generally, situations of political representation generate simultaneous involvement in several games: in the parliamentary game and in the electoral game for MPs, in a bargaining game and in a leader-follower game for trade union representatives, in an international game and in a domestic politics game for national leaders.

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2. At this point, one could ask why the two parties are organized differently and try to explain their organization as an optimal response to different goals or an optimal adaptation to different conditions. But doing so is beyond the scope of this book.

The interaction between economics and politics can also be conceptualized as several different games played by the same actors.

The study of any one of these games in isolation may lead to puzzles similar to the Finnish case. Only the study of the whole network of games in which an actor is involved will reveal the actor's motivations and explain his behavior.

Sometimes an actor's involvement in several games is accidental. Two usually independent games get connected: imagine wage negotiations in some Western country in the 1960s and then in the 1970s. In the first case, the game can be studied in isolation. In the second, the consequences of the 1973 oil shock have to be introduced. At other times, institutions are explicitly designed to alter the results of isolated games. Compare the deliberations of a parliament with the deliberations of a jury or the Supreme Court. In the first case, debates are public, and elections follow at regular intervals. In the second, every measure is taken to isolate the game. In the first case, the input of the public and different pressure groups is structurally assured. In the second, every measure is taken to assure the independence of the players from any consideration outside the game itself. Finally, sometimes the connection between different arenas may itself be part of a political struggle: conservative economists argue for the separation of economic from political games because they believe that free markets produce efficient economic outcomes and government intervention is an impediment to efficiency. Others believe that government action (which may be suboptimal from the purely economic point of view) corrects politically unacceptable outcomes generated by the market. In a general way, one can argue that democracies have built-in situations where games are not played in isolation and, therefore, where choices may appear to be suboptimal.

II. Nested Games: The Logic of Apparently Suboptimal Choice

The assumption that people maximize their goal achievement is not the only possible starting point for an explanation of suboptimal choice. One could argue that Finnish parties make mistakes; that the English activists, the Belgian elites, and the French parties considered in later chapters make mistakes; or that all

these political actors were motivated by other forces, such as habit or jealousy; or that Communists or labor activists belong to a different culture. One could also disregard individual actions and argue that such issues are not important, that what matters in political science are general, "systemic" characteristics and not the properties of individuals.

This book does not follow any of these directions. Along with the mainstream of contemporary political science, I assume that human activity is goal oriented and instrumental and that individual and institutional actors try to maximize their goal achievement. I call this fundamental assumption the *rationality assumption*.

Unlike others in the mainstream, however, I make the rationality assumption explicit, derive its consequences, and draw upon it when formulating explanations. Moreover, I assume that at every step of the way, political actors respect the requirements of rational behavior. In this sense, rational action is one of the explicit major themes of this book; in other words, this book is a rational-choice approach to comparative politics.

Chapter 2 enumerates the requirements of rationality. I show that one of these requirements is conformity to the prescriptions of game theory whenever individuals interact with one another. Therefore, I use game theory to study the interactions among different political actors.

Chapter 3 explains the fundamental game theoretic material used in the book. In game theory, the players face a series of options (strategies); when each selects one strategy, the players jointly determine the outcome of the game, receiving the payoffs associated with that outcome. In order to find the solution to a problem, game theory assumes that the rules of the game (which determine the available strategies) and the payoffs of the players are fixed. Once the rules and payoffs are fixed, the actors choose mutually optimal strategies; each player selects a strategy that maximizes his payoff, given what the other players do. This account specifies that game theory does not leave room for suboptimal action.

How can suboptimal action exist? How can an actor with a series of options $A_1, \ldots, A_n$, out of which A_i appears to be optimal, choose something different from A_i?

Cases of apparently suboptimal choice are in fact cases of dis-

agreement between the actor and the observer. Why would the actor and the observer disagree as to what the optimal course of action is? There are two possibilities: either the actor actually does choose a nonoptimal strategy, or the observer is mistaken.

There are two cases in which the actor does choose suboptimally: if he cannot choose rationally,[3] or if he makes a mistake. For reasons I explain in Chapter 2, I do not think the first case is important in the study of political phenomena. The second case cannot occur often because if the actor recognizes that he was mistaken, he will presumably correct his behavior.

There are also two cases in which the observer may not recognize the optimal course of action. First, the observer makes a mistake, thinking that the optimal action is A_i when it is not. Second, the observer thinks the available set of actions is limited to $A_1, \ldots, A_n$ when it is not—some additional options may be available, including one that is better than A_i.

This book studies *apparently* suboptimal actions because they are frequently cases of disagreement between actor and observer. Therefore, I focus on the reasons the observer failed to recognize the optimal action. To summarize, the argument of this book is that if, with adequate information, an actor's choices appear to be suboptimal, it is because the observer's perspective is incomplete. The observer focuses attention on only one game, but the actor is involved in a whole network of games—what I call *nested games*. What appears suboptimal from the perspective of only one game is in fact optimal when the whole network of games is considered.

There are two major reasons for disagreement between actor and observer. First, option A_i is not optimal because the actor is involved in games in several different arenas, but the observer focuses on only one arena. Let us call the arena that attracts the observer's attention the *principal arena*. The observer disagrees with the actor's choices because the former sees the implications of the latter's choices only for the principal arena. However, when the implications in other arenas are considered, the actor's choice is optimal. I refer to this case of nested games as *games in multiple arenas*.

In the second case, option A_i is not optimal because the actor

3. I explain the requirements of rational choice in Chapter 2.

"innovates," that is, takes steps to increase the number of avail-
able options so that some new option is now better than A_i. In-
creasing the available options means actually changing the rules of
the game that define the options available to each player. In this
case, the observer does not see that the actor is involved not only
in a game in the principal arena, but also in a game about the *rules*
of the game. I call this case of nested games *institutional design*.[4]

Both kinds of nested games (games in multiple arenas and insti-
tutional design) may lead to apparently suboptimal choices. In the
case of games in multiple arenas, the observer considers the game
in the principal arena without taking contextual factors into
account, whereas the actor perceives that the game is nested inside
a bigger game that defines how contextual factors (the other are-
nas) influence his payoffs and those of the other players. In the case
of institutional design, the game in the principal arena is nested
inside a bigger game where the rules of the game themselves are
variable; in this game, the set of available options is considerably
larger than in the original one. The actor is now able to choose
from the new set one strategy that is even better than his best
option in the initial set.

An element of surprise is present in all cases of disagreement
between actor and observer. The factor that may vary is the in-
tensity or magnitude of the surprise. Sometimes the actor and the
observer disagree on details, so the actor appears to make a very
small mistake; sometimes the observer thinks a priori that exactly
the opposite course of action was appropriate, so the actor
appears to make a choice totally against his own interests. From a
theoretical point of view, all cases of suboptimal choice are puz-
zling; from an empirical point of view, only serious disagreements
between observer and actor indicate some fundamental mispercep-
tion by the observer or some important inadequacy of existing
theories.

For each of the two kinds of nested games (games in multiple
arenas and institutional design), the book makes two essential
contributions: one substantive, and one methodological. In the
case of games in multiple arenas, any of the actor's moves has

4. The reason I use the term *institutional design* instead of *institutional game*
will become clear in Chapter 4.

consequences in all arenas; an optimal alternative in one arena (or game) will not necessarily be optimal with respect to the entire network of arenas in which the actor is involved. Although the observer of only *one* game considers some behavior irrational or mistaken, the behavior is in fact optimizing inside a more compli- cated situation. The actor may choose a suboptimal strategy in one game if this strategy happens to maximize his payoffs when all arenas are taken into account. The substantive contribution of this examination of games in multiple arenas is that it presents a systematic way to take into account contextual factors (the situa- tion in other arenas). Such contextual factors influence the payoffs of the actors in one arena, leading to the choice of different strategies; therefore, the outcomes of the game are different when contextual factors are taken into account.

In the case of institutional design, a rational actor seeks to in- crease the number of alternatives, thereby enlarging his strategy space. Instead of confining himself to a choice among available strategies, he redefines the rules of the entire game, choosing among a wider set of options. Therefore, institutional changes can be explained as conscious planning by the actors involved. In the case of institutional design, disagreement between the actor and the observer stemmed from the fact that the observer did not anti- cipate the actor's political innovation. Had the observer known that additional options existed, he would have agreed that one of the new options was optimal. So institutional design provides a systematic way to think about political institutions. Institutions are not considered simply inherited constraints, but possible objects of human activity.

The conventional game theoretic way to deal with problems of games in multiple arenas or institutional design is to consider all the actors involved in all existing arenas, write down all their available strategies, add all the possible innovating strategies, and solve this giant game. In this giant game, all contextual (other relevant actors and arenas) and institutional (rules of possible games) factors are taken into account. If such an enterprise were possible, and if both the actor and the observer were solving this giant game, there would be no possible disagreement about what constitutes optimal action. However, such a heroic enterprise is impossible—at least for practical purposes.

In order to reduce this problem to manageable dimensions and show the reasons for disagreement between actors and observers, I deal with each case of apparently nonoptimal choice (games in multiple arenas and institutional design) separately. I utilize a technically simple model to represent games in multiple arenas. In Chapter 3, I explain the relation between my model and traditional game theoretic approaches. This representation leads to empirically interesting results while keeping the level of mathematical expertise demanded of the reader to high school algebra.

Technically, games in multiple arenas are games with variable payoffs; the game is played in the principal arena, and the variations of the payoffs in this arena are determined by events in one or more other arenas. The nature of the final game changes, depending on the order of magnitude of these payoffs, whether or not the actors can communicate with one another, and whether or not the game is repeated over time.

Technically, institutional change is presented as a problem of intertemporal maximization, where complications arise because future events cannot be clearly anticipated. The available information about future events is of crucial importance for the choice of different types of institutions.

To recapitulate, in the presence of adequate information, if actors do not choose what appears to be the optimizing strategy, it is because they are involved in nested games: games in multiple arenas or institutional design. *Games in multiple arenas* are technically represented by games with variable payoffs. Payoff variations are determined by and reflect contextual factors. The payoffs of the game in the principal arena vary according to the situation prevailing in other arenas, and the actors maximize by taking into account these variable payoffs. The term *institutional design* refers to political innovation concerning the rules of the game. The actors choose among the different possible games, that is, among the possible sets of rules. In this case, they enlarge their strategy space and choose a previously unavailable option.

I indicated that disagreement between actor and observer stems from either a wrong choice by the actor or the incomplete perspective of the observer. If we assume actor rationality, the first case (the less important) is eliminated. The remaining case can be explained by the nested games framework in which choices appear to

be suboptimal in one game because the observer does not take into account that the game in the principal arena is nested inside either a network of other arenas or a higher order game where the rules themselves are variable. Within this rational-choice approach, and assuming adequate information, the concept of nested games is the only explanation for the choice of apparently suboptimal strategies.

III. Outline of the Book

The book describes situations in which actors do *not* choose the apparently optimal alternative because they are involved in nested games, that is, contextual or institutional factors have an overriding importance.

The two kinds of nested games (games in multiple arenas and institutional design) in principle require equivalent treatment. In practice, however, there is an asymmetry. I provide a complete theoretical treatment of games in multiple arenas, draw implications from this treatment, and test these implications in different empirical situations. I treat institutional design in a less rigorous way—I draw up a typology of institutions and observe different kinds of institutions in the empirical chapters that fit this typology. I treat institutional design less exhaustively than games in multiple arenas because institutional change by definition involves political innovation, and it is difficult (if not impossible) to know its rules, much less to have a complete theory about them. Riker (1986) considers the development of political innovation an art as opposed to a science, gives it the name *heresthetics*, and argues that its laws are unknowable. Whether the laws of institutional design are unknowable or simply unknown, the issue of institutional design is too important to be left out of a book adopting a rational-choice methodology. However, the current state of knowledge on institutions justifies the absence of theoretic rigor.

This asymmetry of treatment is clear in the difference in theoretical precision between Chapters 3 and 4. Also, for each of the empirical chapters (5, 6, and 7), the effects of context occupy the major part of the exposition, and only the final section discusses the politics of institutional change. Although theoretically each reason for nonoptimal choice deserves equal treatment, in prac-

tice, there are a major and a minor theme to the book: in the major theme, institutions are assumed constant, and I focus on the effects of political context (games in multiple arenas). In the minor theme, I study the change of rules (institutional design).

The presentation is organized in the following way: Chapter 2 examines the implications of the rational-choice approach in detail. I show why and how this approach differs from other research programs in the social sciences. The approach entails a series of requirements for political actors: the absence of contradictory beliefs, the absence of intransitive preferences, and conformity to the axioms of probability calculus and the rules of game theory (to name but a few). How realistic is such an approach? Once the range of applicability of the theory is defined, the rational-choice approach is a legitimate and fruitful approximation of reality.

In Chapter 3, I lay out the theoretical foundation of games in multiple arenas: they are games with variable payoffs, where the payoffs of the game in the principal arena are influenced by the situation prevailing in another arena. The chapter examines simple two-by-two games with variable payoffs, providing the basis for subsequent applications. The relationship among familiar games (prisoners' dilemma, chicken, assurance game, and deadlock) is examined and their equilibria identified, familiarizing the reader with their game theoretic properties. The distinction between one-shot and iterated games is introduced, and the differences in outcomes are derived theoretically. Finally, I examine comparative statics results (for example, what happens to the frequency of choice of different strategies when these games are iterated and the payoffs of the players vary). Each empirical chapter presents a different substantive application of the concept of games in multiple arenas in different Western European countries.

Chapter 3 provides the direct theoretical foundation for the subsequent empirical chapters, and I refer frequently to its results. Nontechnical readers could take the references to Chapter 3 on faith. In this case, they may see in this book little more than three empirical chapters with loose connections to one another. It would be much more profitable if they tried to work their way through the elementary mathematics of Chapter 3 to understand the logic of the subsequent arguments. In this case, the unity of the empiri-

cal chapters as demonstrations of the logic of nested games will become apparent, and other cases amenable to similar theoretical treatment will become clearer. What is required for complete understanding of the book is not prior knowledge of mathematics, but the will to study Chapter 3 so that its arguments are familiar each time they are used.

Chapter 4 deals with institutional design. It is a study of the necessary conditions for institutional design, a classification of different kinds of institutional design, and a discussion of the conditions under which they are likely to occur. Institutions are divided into efficient (those that promote the interests of all or almost all the actors) and redistributive (those that promote the interests of one coalition against another). The latter is subdivided into consolidating institutions (institutions designed to promote the winners' interests) and new deal institutions (institutions designed to split existing coalitions and transform losers into winners). I argue that theorizing about institutions has usually been confined to only one of these three cases, and has not been extended to all three. Failure to understand the complex nature of institutions has generated incorrect extrapolations and inferences about them. Some authors (mainly Marxists) see institutions exclusively as redistributive; others (mainly economists) see them as exclusively efficient. Finally, I specify the conditions under which efficient or redistributive institution building prevails. Each of the subsequent empirical chapters of the book presents more systematically one example of each category of institution.

I then apply the theoretical framework defined in Chapters 2, 3, and 4 to three different political phenomena in three different countries: party politics and relations between leaders and activists in the British Labour party, consociationalism and institutional design in Belgium, and electoral politics and coalition cohesion in the French Fifth Republic. The cases were selected for their diversity in order to demonstrate the logical coherence, substantive versatility, and empirical accuracy of the nested games framework.

The book as a whole adopts a "most different systems design" (Przeworski and Teune 1970). Three very different cases in Western European politics are studied. They involve different actors, concern different countries, and focus on different subject matters. In all these cases, some simple propositions about rational be-

havior apply: changes in payoffs or institutions lead actors to modify their choice of (equilibrium) strategies. Consequently, political context and political institutions matter in predictable ways.

The chapters are presented in order of increasing complexity. Chapter 5 focuses on the interaction between masses and elites in a competitive electoral context. The principal game is the interaction between Labour members of Parliament and their constituency activists, and this game is nested inside a game of electoral competition between parties. Chapter 6 adopts the reverse perspective. The principal game is the interaction among elites; this interaction, however, is influenced by the interaction between each political elite and the masses it represents. The principal game is parliamentary, and it is nested inside a game between elites and masses. Chapter 7 deals with the more complicated situation in which four parties are organized in two coalitions, and each party has to take several arenas into account: the game at the national level, the competitive game among coalitions at the constituency level, and the game between partners at the constituency level. With respect to institutional design, Chapter 5 presents the case of redistributive institutions of the new deal type, Chapter 6 demonstrates how efficient institutions work, and Chapter 7 shows how different winning coalitions adopt different consolidating institutions.

Chapter 5 deals with party politics and the relationship between leadership and party activists. Labour party constituencies occasionally revolt against their MPs and replace them for being too moderate. Sometimes, in the subsequent election, Labour loses the seat. Such suicidal behavior is problematic inside a rational-choice framework. The phenomena of readoption conflicts and their destructive consequences are studied as a repeated game between constituency activists, standing MPs, and Labour party leaders, which is nested inside the competitive game between the Conservative and Labour parties at the constituency and national levels. The activists' apparently suicidal behavior is explained as optimal in this nested game because they are concerned with building a reputation for toughness that will deter their representatives from being moderate.

The nested games framework explains why previous empirical studies (particularly studies that try to assess the relative strengths

of constituencies and leaderships by examining the frequency of readoption conflicts or their outcomes [Janosik 1968; McKenzie 1964; Ranney 1965, 1968]) focus on the wrong explanatory variables and thus come to dubious conclusions. Moreover, the nested games framework reveals the importance of the institutional changes made under pressure from constituency activists between 1979 and 1981. Contrary to the existing literature (Kogan and Kogan 1982; Williams 1983), I argue that the major change in the Labour party was the shift to the left in the political preferences of the trade unions in the 1970s and not the subsequent institutional modifications that reflected and crystallized this shift.

Chapter 6 deals with the question of consociationalism and institutional design. According to the consociational literature (Lehmbruch 1974; Lijphart 1969, 1977; McRae 1974), deep political and social cleavages do not lead to explosive and unstable situations as long as political elites are accommodating. Other authors (Billiet 1984; Dierickx 1978) claim that what explains the accommodating behavior of elites in consociational countries is the possibility of package deals across issues: for issues of asymmetric importance, vote trading is possible. If these explanations were correct, there would be two consequences. First, there would be no reason for elites to initiate political conflict. Second, there would be no need for consociational institutions, that is, institutions specially designed to minimize conflict. Both the initiation of conflict and consociational institution building seem to be suboptimal activities according to these theories.

In order to explain these puzzles of suboptimal behavior, I use the nested games framework. I study Belgian political elites as they are involved in nested games. They play the parliamentary game among themselves while each elite is involved in a game with its followers. This game between each elite and the masses it represents influences the payoffs of the parliamentary game. I argue that the behavior of political elites is optimal within the nested games, even though it may not be optimal in either game considered in isolation, and I show that optimal behavior in the nested game sometimes entails the initiation of conflict by elites. I provide a consistent explanation of the design of Belgian institutions. Finally, I use the nested games framework to account for the actors' calculations and the failure of the negotiations concerned with the

Egmont Pact, which was intended to resolve the status of Brussels in 1977.

Chapter 7 deals with electoral politics and coalition cohesion in the French Fifth Republic. The French electoral system requires cooperation and coalition formation among different parties in the second round of the elections. Inside each coalition, the party that arrives second in the first round has to transfer its votes to the winner in the second round. How effectively are parties going to transfer their vote to their partner in the second round?

Spatial models of voting and party competition (Bartolini 1984; Rosenthal and Sen 1973, 1977) predict the following: Communists will vote socialist in the second round because Socialists are more to the left than the right-wing parties. But Socialists will not be stable allies for the Communists because the Socialists do not necessarily feel closer to the Communists than to the right-wing parties. Therefore, Socialists enjoy a "positional advantage" over Communists in electoral politics and coalition building (Bartolini 1984, 110). Similar arguments can be made for the right-wing parties. Because their ideological distance is smaller than that between Socialists and Communists, the transfer of votes will be expected to be better inside the Right than inside the Left. However, in reality, all parties intermittently transfer votes. Why would parties prefer to give a seat to the rival coalition instead of helping their partner win?

To explain this suboptimal behavior, I consider the game between partners at the national level as nested inside the competitive game between coalitions and the game between coalition partners at the constituency level. The conditions prevailing at the local level determine each player's payoffs, and the payoffs determine the likelihood of cooperation. The conclusion of the nested games approach is that vote transfers are determined by the balance of forces in a constituency. This balance includes the relative strength of the coalitions and the relative strength of the partners inside each coalition. The theoretical advantage of the nested games approach is that it demonstrates that all parties obey the same laws and behave in similar ways with respect to coalition cohesion and vote transfers. Comparison of the nested games approach with alternative explanations such as spatial models, survey research (Jaffré 1980), and psychosociological approaches

(Converse and Pierce 1986; Rochon and Pierce 1985) indicates several advantages of the approach: theoretical parsimony, consistency with other existing theories, and descriptive accuracy.

The performance of the nested games approach in each case study should not distract readers from the major point: all the empirical cases, which range from coalition politics to party politics and from questions of ideology to questions of institution building, are applications of the *same* theory. The essential goal of this book is to demonstrate that political context and political institutions matter in predictable ways, to explain why such regularities occur, and to provide a *systematic* way to deal with complicated political phenomena. The emphasis is on the word *systematic* because I hope the book makes this particular method of study widely accessible. Making the production of knowledge accessible is, I believe, an important goal for any scientific enterprise.