

A Theory of Party Mergers

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Abstract:

Party mergers are a rare occurrence that is seldom studied by political scientists. Whereas intra-party conflicts can often lead to party splits, inter-party cooperation will rarely produce a merger between competing parties. Drawing from the industrial organizational literature and economics, we develop a theory of party merger where a merger is perceived as an horizontal integration of two different firms. In this hypothetical context, parties are competing over an electoral market, where political activists are assumed to be shareholders, party leaders correspond to management, and the output offered to both voters and activists are public policies. The acquisition of market power is usually the first motive for mergers in a market economy. The argument is that horizontal mergers augment market concentration, which in return increases market power and profitability. In the case of party mergers, the market power corresponds to the pool of supporting voters, and an increase in profitability is perceived as an increase in electoral support. Our model offers a series of predictions on the likelihood of party mergers.

Party mergers rarely occur. This probably explains why there is very little theoretical work in political science on the subject. The formation of electoral coalitions among parties, which often collapse with the fall of the government, is a common feature in countries with proportional electoral systems (e.g. Golder 2005). Mergers are much more permanent. They are also more likely to occur in a simple majority or plurality voting system. When confronted with a party merger, scholars and pundits usually develop an ad hoc explanation in order to shed some light on the motives behind such an unusual phenomenon. The focus inevitably centers around party leaders, and on their negotiation skills, leaving us with very little in the way of a unified theory of mergers with some predictive power.

The recent examples of the SDP-Liberal merger in England, the Conservative-Alliance merger in Canada, or the merger of the DJP, NDRP and RDP in Korea, suggest that mergers are not isolated events, and thus cannot simply be analyzed on a case by case basis (for specific case studies, see Crewe and King 1995; Bélanger and Godbout 2004; Kim 1997). Unlike parliamentary party coalitions which have been extensively studied using formal and economic theory (e.g. Baron 1991; Austen-Smith and Banks 1990; Baron and Diermeier 2001), very little in the way of a formalized theory of party mergers has been developed. The lack of an explicit theory implies that scholars must draw upon the party organization and party lifespan literature (e.g. Pedersen 1982; Panebianco 1988; Harmel and Janda 1994) in their analyses of mergers. For example, Bélanger and Godbout (2004) have shown that exogenous and endogenous factors like leadership changes, shifts in factional alliances, electoral realignment, and controversial policy choices, are capable of precipitating a merger between two political parties. Yet,

their study does not provide a complete theoretical explanation to account for the logic underlying party fusions. Like in the party organization literature, their analysis explains party change through goal-oriented actions taken by political actors. As they acknowledge, this approach fails to clarify the cyclical interplay between the often competing vote-seeking and policy-seeking goals of parties, and is incapable of determining how this recurring pattern fits into the calculus of party merger.

The following paper offers an attempt at filling these gaps. We propose a theory of party mergers, based on the industrial organization and political economy literature. The first section presents some broad theoretical concepts related to the theory of the firm and the organizational structure, that can be fruitfully linked to the study of party systems. The second section develops a classification of party mergers. The third section looks at the motives behind party mergers. The fourth section introduces the party merger model. In the final section we conclude.

1. Industrial Organization Literature and the Party System

The industrial organization literature in economics contains a vast amount of research on firm mergers. The body of work is divided into two categories: the first relates to the theory of the firm, and looks at formal explanations of the motives and consequences of mergers; the second is more empirical, and assesses the impact of certain economic indicators on the likelihood of merger, and also on its profitability.

We are only interested in utilizing the broader theory of firm merger in order to better understand the motives and rationale behind the union of two distinct political parties. The first assumption of this model is that modern mass political parties operate

like firms (e.g. Weingast and Marshall 1988; Rohde 1991; Cox and McCubbins 1993). Management can be conceived as party leadership, and shareholders as party activists who contribute time and money to the organization. The simplest model of the firm in the industrial organization literature assumes a delegation of power to a single chief executive office. We believe, like Cox and McCubbins (2004), that a more fruitful analogy is to partnerships, such as law and accounting firms, in which various levels of partners provide overall strategic and tactical direction to the firm. However, our model takes into account the potential interaction between activists (shareholders) and the executive (party leaders).

Following Downs (1957), we assume that parties are vote maximizers and are willing to shift policies any distance in order to win elections (the median voter theorem). However, we also contend like McGann (2002) and Aldrich (1995) that party positions are chosen with one eye on the preferences of supporters. Just like in the coalition formation literature, parties care about policy outcomes. Our model also predicts that a party merger should be formed by parties close to each other in a policy space (Axelrod 1970; de Swaan 1973). We also contend that a merger is only possible between parties that have been capable of electing representatives, and are recognized as such by the legislature. Our focus is on parliamentary multiparty systems, where MPs are elected through simple majority or plurality voting. Thus, *party platforms and party leaders are chosen by majority rule, where each party members has a vote.*

At this point, some additional clarifications may be necessary in order to justify the use of market economy and firm theory in our analysis of party mergers. In market economies, a firm will produce a widget at a certain cost, generating profits by selling a

product to a maximum number of consumers. The price and quantity of widgets sold in equilibrium will be determined by the interaction of the firm supplies and the consumers' demand. In the political realm, parties cannot directly "produce" policies, and citizens are not expected to "consume" what they may have "bought" with their votes. However, the political economy literature abounds with models of rational actors who choose to maximize their votes by supporting candidates who match their own policy preferences. Henceforth, this research is based on the public choice approach to non-market decision making. Like Mueller (2003), the following theory will make the same behavioral assumptions as general economics, and will depict the preferences revelation process as analogous to the market, whereby voters engage in exchange and individuals reveal their demand through voting.

2. Firm and Party Mergers

Takeovers and mergers are an important part of the operation of a market economy. The acquisition of firms can be classified in a number of ways. For example, we can look at the type of transaction involved. In this case, two specific types of merger are of interest to our theory. The first relates to an agreed merger, where firm A acquires firm B in a bid recommended by B's management to B's shareholders. The second involves a contested takeover, where firm A makes an offer directly to firm B's shareholders over the heads of B's management (who may try to block the takeover). Takeovers and mergers are also related to the type of market involved. If both firms are in the same product market, then the merger will be horizontal. A vertical merger is when a firm acquires a supplier or a customer firm.

In the context of a party system, one could think of a merger between two parties as an horizontal merger, since both parties are competing in the same market (sum of voters n) and potentially for the same type of consumers (proximal ideological voters). In terms of the type of transaction involved, the similarity between the party system and the market economy is not so clear.

First, we can think of a classical merger between two parties in order to create a new political entity as a case of an agreed merger. Here, the management of firm A (party leader A) negotiates a merger with the management of firm B (party leader B). After a deal is struck, a proposition is made to the shareholders that is approved or rejected through a vote (by the activists of party A and B). The mergers of the Canadian Alliance and the Progressive Conservative party, or the SDP and the Liberal Party in Britain, fit into this category.

Now, in the case of a contested takeover, the classification becomes a little more problematic and requires some modification. In the context of a party system, one can think that party A's pool of potential voters and activists is in the same market as party B's. Given the limited amount of voters and activists for each party in a multiparty system, one can conceive a case where party A makes a tender offer to party B's supporters in which they propose to form a new political organization. In this case activists from A and B will select a new leader and a new platform. Just like in the case of a tender offer from firm A to target firm B, shareholders (activists) receive an offer from firm A's management (party leader A) to sell their firm's stock to firm A at price p . This process bypasses the management of firm B (party leader B) in the merger negotiation.

In such a situation, party B, unlike firm B in the economic system, will not ultimately merge with party A (e.g. hostile takeover). Rather, one could assume that party B will continue to exist for a short period, until its electoral and financial support is drained. Here, one can think of the example of the creation of the Canadian Alliance, which replaced the Reform Party in early 2000. In this case, the Alliance directly made an offer to activists, campaign contributors, and voters, who supported the Progressive Conservative Party, to join their new political formation in order to participate in (1) the selection of a new leadership and (2) the formation of a new policy platform. However, the creation of the Canadian Alliance failed to significantly erode the votes for the Progressive Conservative Party which remained competitive in the 2000 election.

As we have seen, the industrial organization literature provides us with a classification and a transactional scheme to explain party mergers. The next sections will take a closer look at the motives behind party mergers and develop a model to predict the success or failure of party mergers.

3. Incentives for a Merger

A series of motives are identified in the industrial organization literature to explain mergers. The first is increased market power. The logic here is that if two firms are operating in the same market (horizontal), then a merger will increase the size of the market for both firms. In the context of a political party system, the same logic applies. Two merging parties increase their cumulative share of the votes. And in the case of simple majority voting, they may also increase their total elected seat share by reducing vote splitting among voters who support both parties in the same riding. The new size

may also help increase the party's bargaining power in the legislature, or provide the party with enough seats to form the government.

A second motive for two firms to merge has to do with economies of scope. The new firm may reduce its advertising, or other promotional expenditures. It may also create efficiency in management, and reduce its overall tax burden. In the case of political parties, the same logic applies, since campaign expenditures can be pooled and be more efficiently distributed (e.g. running one candidate per riding instead of two). Organizational costs are also reduced, if we consider the fact that the need for party offices and employees will be reduced.

The third, and most important, motive behind a firm's decision to merge is synergy. In the industrial organization literature, synergy is related to efficiency gains which are otherwise not attainable when both firms evolve independently. One can think of production economies, combination of research and development, and obtaining additional financing as types of synergy gains.

In the case of political parties, the concept of synergy is a little more difficult to define. When two political parties merge, both party activists and party leaders must come to an agreement as to the content of the new party platform. This new policy agreement will result from a synergic collapse of views between members of party A and B. Most likely, it will be different from the previous platforms of both parties. Furthermore, we assume that this new policy platform could not have been otherwise attainable by each party independently. The party leaders should in fact be limited by the preferences of their own activists. In other words, the clash of ideas during the merger

negotiations, between members of factions A and B, will give a final product significantly different than anything that party A or B could have adopted on their own.

Because of this synergy, we can also assume that the votes for party M (merger of party A and B) will be greater than the simple addition of the votes for party A and B, if both were to run independently in a similar election (i.e. $V_M \geq \sum V_A + \sum V_B$ where V_M is the vote total of the merged party). The creation of the Canadian Alliance provides a good example of the lack of synergy in the restructuring of the Reform party in 2000. Even with a new leader and a new platform, the former Reform party was incapable of changing its reputation of being a Western, social-conservative and anti-Quebec party (Laycock 2002). It really took the merger with the Progressive Conservative party in 2003 for the Canadian Alliance to finally lose this status. But this merger had to be negotiated, and ideological differences between both parties had to be reconciled. Hence, the synergy.

The preceding discussion offers a number of important elements that form the basis of our theory of party mergers, the fundamentals of which we now describe.

4. Theory of Party Mergers

The following theory introduces a model that describes three measures of incentives for political parties to merge. The first theorem creates a dynamic function explaining the mutual interdependence relationship between party merger, activists, ideology, campaign spending and the vote. The second theorem relates to the variance-mean synthesis of voting and campaign contributions. The final theorem explains the relationship between mergers, ideology, party leaders, and activists.

4.1) First Theorem of Party Mergers: War of Attrition

In the industrial organization literature, it is common to assume that the formation of a natural monopoly is the result of a war of attrition between two firms. In this context, two players compete in the same market, waiting and suffering for a while (i.e. operating at a certain loss). If at some point in time, a rival has not yet quit, a player gives up and the remaining player captures the overall market shares and becomes monopolistic. According to Tirole (1988), the only instance in which two firms are indifferent between dropping out or waging a war of attrition occurs when a firm's expected gains for both of these actions is equal to 0. In other words, because dropping out at a specific time means zero profits from that date on, the firm who has dropped out expects current and future profits to be nil.

In the case of two political parties competing over the same pool of supporters (who are splitting their vote), we can assume that a war of attrition exists if both parties refuse to form an alliance or to merge into a single political entity to try and defeat the incumbent. Each party is waiting to see if the other party is going to exit first. Both parties are also expected to perform poorly in any election so long as they are competing against each other for the same votes. Unlike the case of two firms engaging in a war of attrition, we cannot assume that parties are locked in a price war. We can, however, postulate that each party is fighting over the same votes in a zero-sum game. If party A is capable of capturing an increasing share of party B's voters, party A will eventually win the war of attrition over a specific number of elections (depending on the rate of defection from B to A). This is, for instance, what happened in the Quebec provincial party system during the 1930s, when the Union Nationale was able to gradually capture

the Action Libérale Nationale's support base over the course of three provincial elections, forcing the latter party to extinction (Dirks 1991).

However, in a case where party A is incapable of significantly reducing party B's electoral support, or where the rate of defection is very low, the war of attrition is likely to be long and will become extremely costly for both parties. Unlike in a market economy where price adjustment is often assumed to be instantaneous (Tirole 1988), parties have to wait for an election in order to engage in another round of competition. This is exactly what occurred recently in the Canadian federal party system. The Reform/Alliance was incapable of winning over all the support from the Tory party, and both parties would have continued to split the conservative votes indefinitely had there not been a merger prior to the 2004 federal election.

Now if we assume a three party system (plurality voting), where party A and B split the vote on the right of the median (party C occupies the center), we can identify the following relationships. First, since elections cost money, political parties need individual contributions to wage their campaigns. These contributions are primarily a function of the number of party activists, the number of elected representatives (previous election), and the closeness of the race. Two parties who share the same pool of potential voters, contributors, and activists, will see the individual shares of these resources reduced if they are engaged in a war of attrition. Given that the number of party activists (and potential contributors) is a function of the party platform and the number of elected representatives (Moon 2004), we can assume that a party who is fighting a war of attrition will see a reduction in: (1) the number of elected representatives (vote splitting increase; closeness of the races reduced); (2) the number of activists (activists splitting

increase; elected representatives decrease); and (3) the overall size of campaign contributions. So long as the parties compete against each other in one election after the other, they are not only more likely to never seriously threaten the incumbent, but the costs of the conflict will increase while the number and the size of their contributions will be reduced.

The important thing to note here is that there exists a dynamic interaction between electoral success, campaign spending, and party activism. The utility of activists is related to electoral success – i.e. they prefer to donate money and time to a party that has some chances of winning. So in order to increase their vote share, party A and B have very little options at their disposal. They can try to modify their platforms (to make a broader appeal) or attract more activists (and increase contributions). But both of these actions are interdependent (activists choose the platforms/leaders; while the platform/leader is the primary incentive for recruitment). Furthermore, these actions are severely constrained by the number of parties competing in the electorate.

Basically, our theory of party merger focuses on this specific tradeoff. A merger will be considered an option whenever a party is incapable of significantly modifying its platform and attracting more party activists and, ultimately, more voters. In effect, party A and B's incentive to merge will come from the specific need to reduce the number of parties in competition. This may in return increase party funding, votes, and ultimately the number of elected MPs. The following theorem formalizes this intuition.

Theorem (1): *Given 3 parties (A-B-C) competing in an infinite number of elections where (a) the winner is determined by plurality; (b) parties A and B are engaged in a war of attrition, and (c) vote splitting occurs on the left or the right of the median (party C occupies the center). We can derive the following set of equations, where:*

A, B, C = stand for party A, B, and C.
 α = stands for the number of Activists
E = stands for the number of Elected MPs
C = stands for the total contribution to the party
CL = stands for perceived closeness of the race
 π = stands for party platform
N = stands for the number of parties
V = stands for the votes the party will receive
P = stands for the strategies of the opposition parties
t = stands for the current election period
t-1 = stands for the previous election period
 ϵ = stands for error term, or random factor in the equation, such as economic conditions, leadership, crises, etc.
 f_i = stands for functional relationship

And the following holds.

1. Campaign contributions for party A are a function of the number of activists, the number of votes from the previous election, and the perceived closeness of the race.

$$C_A = f_1(\alpha_A, V_A, t-1, CL_t)$$

2. The number of party activists for party A is a function of the previous party ideology, the number of votes in the previous election and the number of parties in the current election.

$$\alpha_A = f_2(\pi_A, t-1, V_A, t-1, N_t)$$

3. Party platform of A is a function of the number of activists, and previous ideology.

$$\pi_A = f_3(\pi_A, t-1, \alpha_A, t)$$

4. The number of votes for party A in the current election is a function of party contribution, of party platform, of the number of parties, of the previous election vote, of the strategies of the opposing parties, and on some randomness.

$$V_{A, t} = f_4(C_A, t, \pi_A, t, N_t, P_t, \epsilon_t)$$

5. The perceived closeness of the race is a function of the number of parties, and the votes in the previous election.

$$CL_t = f_5(N_t, V_A, t-1)$$

6. The number of votes for party A in the previous election is a function of party contribution, of party platform, of the number of parties (all t-1), of the votes for the party in the previous election (t-2), of the strategies of the opposing parties (t-1), and some randomness (t-1).

$$V_{A, t-1} = f_6(C_A, t-1, \pi_{A-1}, N_{t-1}, V_A, t-2, P_{t-1}, \epsilon_{t-1})$$

7. The number of elected representatives for party A is a function of the votes, the number of parties, and incumbency.

$$E_{A, t} = f_8(V_A, t, N_t, E_A, t-1)$$

The preceding set of equations imply that in order to increase its vote share (and potentially form the next government), party A needs to increase C_A , move π_A toward the median, or reduce N , the number of parties competing in the election (at time t). Our theory needs to identify the exact conditions under which a party merger (or the reduction of N) becomes the only option to increase the likelihood of forming the next government ($E_{A+E_B} > E_C$). The remaining two theorems set out to identify these parameters.

4.2) Second Theorem of Party Mergers: A Mean-Variance Synthesis

Our second theorem is related to the monetary and vote risk associated with a merger (the C_A and V_{AB} , $t-1$ variables in the first theorem). The leaders of party A may be willing to negotiate a merger if party B represents a “low risk” investment (Rubenstein 1973). Suppose that expected votes for party A in each district r is equal to $E(\tilde{V}_A)$ and that the variance of this return is equal to

$$\text{var}(\tilde{V}_A) = E(\tilde{V}_A - \bar{V}_A)^2 = \sigma_A^2$$

where \tilde{V}_A is a random variable, and \bar{V}_A is the mean return vote for party A in each district. If $\text{var}(\tilde{V}_A) > 0$ then party A is a risky asset. In other word, the support for party A varies a lot across electoral districts. Which represent a risk.

Now suppose party A merges with party B, so that the combined vote across district has an expected return vote of:

$$E(\tilde{V}_M) = E(\tilde{V}_A) + E(\tilde{V}_B)$$

The risk of the combined party merger will thus equal:

$$\text{var}(\tilde{V}_M) = \text{Var}(\tilde{V}_A) + \text{Var}(\tilde{V}_B) + 2 \text{cov}(\tilde{V}_A, \tilde{V}_B)$$

where the covariance of the vote for party A and B across districts is equal to:

$$\sigma_M^2 = \sigma_A^2 + \sigma_B^2 + 2r\sigma_A \sigma_B$$

where r is the correlation between votes A and B across districts.

Now suppose that $\sigma_A = \sigma_B = \sigma$, and $E(\tilde{V}_A) = E(\tilde{V}_B)$, if there is a perfect correlation between the district votes for party A and party B, $r = 1$ and $\sigma_M^2 = 4\sigma^2$ and also $E(\tilde{V}_M) = 2E(\tilde{V}_{A,B})$. Then the variance has quadrupled, so the standard deviation has doubled, so there is no change in the risk facing party A (see appendix, Figure 2). In other words, if the co-variance of the votes between party A and party B is high, then both parties are experiencing the same success rates in each electoral districts. When one party is doing poorly, so does the other one.

However, if $r = 0$ then $\sigma_M^2 = 2\sigma^2$ and standard deviation has risen by $\sqrt{2}$ while expected votes have doubled and risk is reduced. In other words, if the correlation among district votes between A and B is equal to 0, then party B is succeeding where party A is not (see appendix, figure 2). Consequently, party B is providing a constant rate of support across districts where A has limited success. The following theorem formalizes this intuition.

Theorem (2): *If $r < 1$ between the votes for party A and party B in each electoral district in the previous election, then a merger between party A and B will reduce the standard deviation relative to the votes, so that the risk of a merger of party A and B will be less than the risk faced by the two individual parties. The lower r is, the stronger the incentive for a merger (given that party A and B share close ideological ties). Consequently, a merger between party A and B may have an additional attraction for both parties if the votes are not concentrated in the same district, or if the votes of one party are constant across districts.*

Alternatively, risk can also be defined in terms of the political parties' asset. In this context, the variance of a party's mean annual budget over a certain period (combination of asset, donations, and government funding) can be said to represent a

good investment if it is low. In other words, if party B's contributions remain stable across time, then it would be in the interest of party A to propose a merger. Once again, in the case where $r < 1$ between the contributions of party A and B, a merger will most certainly be a good investment. It will prove to be a low risk venture which will increase the expected asset of the new party. In the case where $r < 0$, then the merger might even be more advantageous. In effect, when $r < 0$, any contribution to party A in an election, would be inversely related party B's financial support. The reverse is also true, whenever B is high, A would be low. This is exactly what happened in Canada to the Reform/Alliance and the Progressive Conservative party between 1993 and 2003.

The logic here is that both parties are recruiting contributions (and alternatively activists) from the same pool of potential donors. When one party is doing well financially, the other is not. In other words, party A's success is party B's downfall. Clearly, potential supporters only have so much money to throw around. If r is close to 1, both parties are relatively well off on their own. If the correlation between the contributions to A and B is close to 0, the merger provides a stable source of income for both parties across elections. And if $r < 0$, then we can say that the merger is complementary. In this case, both parties do not have to compete for contributions over the same pool of potential donors.

4.3) Third Theorem of Party Mergers: Equality

The third theorem is related to the role of party activists and party platforms in the decision to merge (α_{AB} , π_{AB} variables in the first theorem). In the basic war of attrition context, party A and B do not change their party platforms. When a party is looking to displace its platform beyond the median (or a certain point, threshold) of party activists'

issue positions, a party needs to change the ideological composition of its membership. One option is through inter-generational replacement. Another is through a war of attrition between party A and B. An additional method is by an influx of new party members which can ultimately shift the party median to another position. In this case, a party merger or a tender offer (if applicable) is the most efficient way to guarantee this outcome. For a party merger, all of the activists of party A and B, and their respective leadership, are pooled to form a new political entity. In the case of a tender offer, party A tries to recruit party B's activists by encouraging defection. Party A will propose to form a new party platform¹ to lure party B's activists into their camp (disregarding party B's leadership). The logic is as follows.

The tender offer:

In the tender offer case, party A tries to attract the activists of party B into forming a new political party (party M). However, the negotiation is done without the consent of the leadership of party B. A tender offer made by party A to party B would necessarily bring forth the following new ideological position for party M, assuming the expected merger of the activists of A and B .

If $uX_A \neq uX_B$ then X_M will be calculated using:

$$\left(\frac{\sum X_A + \sum X_B}{N_A + N_B} \right) = X_M$$

Where X_i is the ideological location of the average of n party members on a left and right issue dimension space (see figure 1, appendix). Consequently,

- 1) *If $N_A > N_B$ then Party B will reject the offer.*
- 2) *If $N_A \leq N_B$ then Party B will accept the offer.*

¹ Could also think of selecting new party leaders.

In other words, unless the size of party B's membership is equal or greater to party A, the new ideological position of party M will be closer to party A's median (see figure 2, appendix). When $N_A > N_B$, a majority of party B's activists will refuse any tender offer proposition. Consequently, party B may be left with enough political clout to continue the war of attrition indefinitely. If $N_B > N_A$, then it is not in the interest of party B to propose a tender offer.

The merger negotiation:

Aside from a tender offer, party A could negotiate a merger with the leadership of party B, to try and even out the membership between both parties.

The same logic applies for the selection of a new party leader. Assuming that there will be a leadership race between A and B, party B's leadership would be reluctant to accept a merger if they were certain of being demoted. In this case, the party leader would be more likely to resist all merger attempts (like a target firm manager; see Berkovitch, Bradley and Khanna 1989).

In the case of the Canadian Alliance and the Progressive Conservative party merger, the leader and the future platform of the merged party were chosen to be selected using a method giving equal weight to the 301 ridings where candidates ran in the 2000 election. As a result, the higher concentrated membership of the Alliance in the West vis-à-vis the Tories was diluted. The leadership and platform were chosen using the following formula:

$$\frac{1}{n} \sum_{i=1}^N \left(\frac{\sum X_A + \sum X_B}{r_i} \right) = X_M$$

Where N is the sum of all ridings r . In this example, the merger becomes more appealing to party B, because it gives them a greater influence in the formulation of the policy platform (when $N_A > N_B$). For party A, the trade-off in influence is probably justified by the synergy gains of the merger.

The next theorem formalizes the relationship between the type of proposed merger, party platform, and the number of party activists.

Theorem (3): *Given that $N_A > N_B$,*

(i) If party A makes a tender offer to party B's activists, the offer will succeed only if party A can expect to shift the new party platform to the distance $\frac{(M_A + M_B)}{2}$, where M is the party activist median.

(ii) If party A negotiates a merger with party B, the offer will succeed if the acquirer is willing to weight N_A , in order to approximate $N_A = N_B$.

5. Summary and Conclusion

We have rearranged our ideas to demonstrate the circularity of our analytical structure: votes depend on contributions and party platforms, which depend on the number and ideological orientation of activists. The relationship between votes, number of parties, and the number of activists, will ultimately determine the closeness of the race, the number of elected MPs, and the size of party contributions (theorem 1). The next step in our theoretical model set out to identify the circumstances under which a merger is advantageous for both parties involved. We established that a reduction in the risks associated with voting and funding could potentially lead to a merger (theorem 2). We also demonstrated that (1) a tender offer was unlikely to produce any specific gains (unless both parties were of equal size); and that (2) a party merger was more likely to succeed if the activists of both parties were weighted equally (theorem 3). Our theory was

developed on the basis of a merger between two parties, but there is no reason why it cannot be applied to the case of a merger between more than two parties (e.g. the creation of the Christian Democratic Appeal in the Netherlands during the 1970s).

This is the first of our new theory of party merger. Much remains to be done. First and foremost, the theory is in need of a more general unifying theoretical framework to link systematically each of the previous theorems. In effect, we need to develop some form of utility model which would allow scholars to predict with a certain level of certainty the likelihood of party mergers given, for example, the trends in activism membership, party finance, electoral results, and the parties' ideological leanings. Merger negotiation between two firms is often conceived as a form of bargaining game (Berkovitch, Bradley and Khanna 1989). The same is true when one considers coalition formation in government (Rusinowska and de Swart 2005). Merger can be modeled as a sequential bargaining game in which the party can either reject or accept the offer made by the acquiring party. In effect, if we identify the payoffs from the merger game for each of the parties involved (activists and party leaders), it will be possible to solve for the conditions under which an acquisition could be made under a tender offer, or through a proposed merger. This would allow us to add a very interesting dimension to our party merger model.

Our theory probably contains a number of shortcomings, but we believe that one of its principal weaknesses relates to the fact that it is only limited to a one-dimensional study of a left-right continuum. We are aware that in the Canadian case, the issue of social conservatism and anti-Quebec sentiments played an important role in delaying the Alliance and Tory merger. Our model currently fails to capture this interesting dynamic,

and any subsequent work will have to integrate this dimension; especially if we relate this to the validity of our third theorem.

Our model also needs to be tested empirically. The British and Canadian cases provide us with valuable recent examples of party mergers. The next logical step will be to gather some data on party finances, activists, platforms, and public opinion to see how well our theory performs in predicting these mergers.

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Appendix

Figure 1:

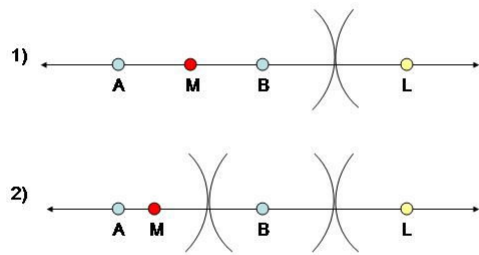


Figure 2:

