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Party Formation in a Parliamentary Democracy
(Job Market Paper)

Abstract

Party structure in many parliamentary democracies is unstable, especially in closed-list proportional representation systems. In closed-list systems, parties function as an entity to produce rents. Rent production requires political assets, which the members provide to their parties. Party leaders select candidates in advance of elections, and voters can vote only for the party as a whole. Party leaders seek productive politicians, who, in turn, switch parties when they receive better outside offers. The market for rent production resembles a labor market since parties' competition for rents translates into a competition for productive politicians. Moreover, party control over government functions generates valuable club goods. I develop an equilibrium model of party formation which incorporates parties' provision of club goods, rent sharing between a politician and a party leader, and outside options. The model also can be applied to labor markets in which workers trade off compensating differentials and wages earned in a firm engaged in team production.

I develop a model of coalition formation in a party in an on-the-job search framework. The theory contributes to the literature in two ways. First, a politician's ranking of the parties' values is endogenously determined by the capacity-constrained leaders' rent maximization problem. Second, the politicians differ in their ranking of the parties because a party's value has two components that have different returns to party size. Bigger parties provide larger club goods, but they also demand a higher tax on a politician's assets to join. Politicians with larger assets prefer the smaller parties because they have to give up too much rents to become a member of the bigger parties.

I estimate the model using a data set I constructed on Turkish politicians who appeared in a party's ballot list during the 1995-2014 period. During this period, 28.5% of the members of the parliament switched their parties at least once. Using these data, I find that a party accumulates club goods faster than it produces rents, which provides a party leader a large control over the party rents. I also find that having a college degree or an occupation in a prominent sector is a negative political asset. I shall also use the results to conduct a counterfactual analysis in which I compare the member composition of parties across different types of democracies.

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