Political Mergers as Coalition Formation: Evidence from Japanese Municipal Amalgamations[*]

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Abstract

Political coalition formation games can describe the formation and dissolution of nations, as well as the creation of coalition governments, the establishment of political parties, and other similar phenomena. These games have been studied from a theoretical perspective, but the models have not been used extensively in empirical work. This paper presents a method of estimating political coalition formation models with many-player coalitions, and then applies this method to the recent *heisei* municipal amalgamations in Japan to estimate structural coefficients that describe the behaviour of municipalities. The method enables counterfactual analysis, which in the Japanese case shows that the national government could increase welfare via a counter-intuitive policy involving transfers to richer municipalities conditional on their participation in a merger.