

5th Edition

Bruce Bueno de Mesquita

Principles of INTERNATIONAL POLITICS



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To the memory of Abraham and Clara Bueno de Mesquita, A. F. K. Organski, William H. Riker, and Robert Jackman. They were master mentors and exemplars of lives well lived. They taught me to reflect on how our world works for which I am forever in their debt. Though I can no longer turn to them for counsel, still I listen for their whispers on the wind.

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Preface

I am most excited about the fifth edition of *Principles of International Politics* as it represents the fulfillment of my dream to provide a readily understood, better way to study and practice international politics. This edition provides a holistic investigation of international affairs, completely reorganized, rewritten, filled with up-to-date examples—ranging from the Arab Spring to the latest efforts to solve global warming—and even with new main themes—*War, Peace, and World Order*—intended to emphasize the breadth of its theoretical perspective. It provides a focused approach that develops the logic and evidence behind international security concerns (war), international political economy concerns (peace) and interest in improving the quality of people's lives around the world (world order)—always tying these issues back to the way in which domestic political interests and divisions shape what happens in international affairs. This edition provides a detailed look at how international organizations work and a new chapter to examine the problems and prospects in achieving significant progress on global climate change through global international agreements. It also offers a careful, new evaluation of international law and domestic political interests and how they influence respect for human rights, as well as exploring central issues, especially globalization and its ties to domestic politics, and how these concerns shape global trade in goods, services and money. I also offer a close look at foreign aid policy; efforts to spread democracy and to stymie terrorism; and how, in each case, domestic politics create unintended and undesirable consequences.

The book's changes are the consequence of advances in our knowledge coupled with the incorporation of the thoughtful feedback that many of you who have taught from or studied from this book have offered me. Because of your insights, this new edition is not merely a rearrangement and update of material. It has been rewritten from the ground up. It is, in essence, a nontechnical explanation of the selectorate theory and contending alternative

theories as applied to all aspects of international affairs, examining in each case the strengths and weaknesses of approaches ranging from realism and its offshoots to constructivism and associated ideas. More so than any other introductory international relations text, this volume emphasizes how intertwined and inseparable domestic and international politics are. It shows that so many standard ideas, such as the importance of the balance of power or the benefit of global agreements, are overrated and lead to bad policy decisions. I believe we now know enough and have amassed sufficient evidence and compelling logic to conclude that we can safely move beyond structural theories and much received wisdom to examine what is actually consistent with logic and with the current state of evidence. This book strives vigorously to do just that while keeping the explanation of logic and evidence easy to follow and exciting to probe and discuss in class.

The great attraction in writing this textbook is that through its pages I gain the opportunity to give students their first exposure to international affairs and to shape how they think about international events for the rest of their lives. Today's students are our future leaders in government, business, and academia and so must be well informed not only about the facts of history but also about ideas that will guide their thinking. I have tried to present students with a view of international relations grounded in the scientific method, anchored in history and current events, and focused on a unified theoretical theme. I hope instructors will steer their students to the history appendix to be read in tandem with the introduction to the book. That way, students will begin to gain both an idea of how to think about international affairs and a common grounding in the essential trends and developments in history over the past 500 years right up to the present day. It is, after all, ideas and history that shape today's international environment.

I have used theory to explore important policy questions and to challenge intuition. Through chapter-opening, entertaining quizzes focused on surprising insights and through serious, probing evaluations of critical issues, the fifth edition urges all of us to rely on logic and evidence rather than opinion or personal predilections in forming and evaluating foreign policy.

International relations too often are studied as if they were divorced from daily politics or as a scattershot sampling of competing ideas and conjectures. It frequently is presented as a mysterious subject that depends on wisdom without the assistance of science, rather than as a subject amenable to the scientific method. And all too often it is treated as if events were

unpredictable when they can be predicted and explained through the judicious application of analytic tools, logic, and empirical rigor. This book gives students those tools and logic.

THE APPROACH

Principles of International Politics is unique in its theoretical focus across every aspect of international relations; its attention to logical, empirical, and analytic rigor; and its historical sweep. Central among my convictions is that international politics is a product of the normal pulls and tugs of domestic affairs and that leaders (not nations) make policy decisions and do so to maximize their prospects of staying in office. Their decisions, therefore, are strategic, taking into account expected responses by adversaries and supporters and designed to maximize the leader's (not the state's) welfare. I call this view the strategic perspective. The quest for personal political power guides policy choices, and the cumulative effect of policy choices gives rise to what we call the international system. Therefore, domestic politics, foreign policy, and international politics are inextricably linked. We cannot make sense of international relations without considering all three.

As the theoretical backbone, the strategic perspective—especially in its selectorate guise—is always at the core of each explanation and comparison within the book, whether I discuss contemporary terrorism, trade and currency policies, global warming, human rights abuses, or the emergence of the modern sovereign state during the High Middle Ages. At the outset, the fifth edition introduces Arrow's impossibility theorem and implications from it to demonstrate why there either is no such thing as "the national interest" or, if there is, why we *cannot know* that we have correctly identified it. This new material alone represents one of the most important lessons a student can learn about why so many seemingly odd choices are made in international political life. But the fifth edition does much more. Building on the ideas behind Arrow's theorem and related insights, I explain why terrible leaders who bankrupt their countries, steal foreign aid, and oppress their citizens persist in office for a long time, whereas leaders who provide peace and prosperity are frequently ousted. The empirical regularities known as the democratic peace are explained, as is the role of power in the initiation and escalation of disputes. The book explores at length trade sanctions; pressures for trade protectionism; the links of these sanctions and pressures to domestic

political considerations; and issues of international law, international organizations, and the role that “We, the People” play in shaping foreign aid policies or nation building and their unfortunate consequences for many of the world’s poorest and most oppressed. I suggest why North Korea or Iran could sensibly oppose international pressures to abandon their nuclear programs and why a global problem, such as climate change, is not best solved through global solutions. Students learn why and how unwanted trade wars can occur and the conditions in which economic sanctions are likely to be effective or ineffective. I take them through a careful examination of globalization, with clear arguments about who the winners and losers are likely to be from free trade. I explore paths to war and peace, as well as questions about the functioning of international organizations, international law, and the promotion or abuse of human rights. Nation building, military intervention, and innumerable other topics are related to the volume’s theoretical framework.

The fifth edition sets out competing arguments and evaluates both their logical coherence and empirical reliability, frequently combining historical examples with nontechnical summaries of statistical evidence. It sets out an assessment of constructivist, realist, and liberal theories, all the while employing the strategic perspective to compare and contrast to these other perspectives. Through these comparisons, I seek to bring coherence to a topic that is often seen as overwhelming. In this new edition, I have tried to make even the most demanding concepts readily accessible and interesting to beginning students by offering many illustrative applications in each chapter and by writing in a more easily understood style. A key component of the book’s new accessibility is to introduce very early on the scientific method and the ways in which it can be used to sort out logically and empirically compelling explanations of events from casual reasoning or wishful thinking. I concentrate most of the essential technical material, in mostly nontechnical form, at the beginning of the book, where it is interwoven through a series of ongoing examples. Readers are thus exposed from the start—and in an intuitive way—to selectorate theory and a set of other game-theoretic tools that they then see applied to and developed in the subsequent issues discussed in the book. At the same time, I have attempted to make the book meaty enough so that students will want to return to it long after they have completed the introductory course. This should be a book to keep and use as a ready reference guide to seemingly puzzling developments in the

international arena.

METHODOLOGY

My primary purpose in writing this book is to provide students with a better understanding of international relations. The book teaches students how to use sophisticated analytic tools, making them accessible, easily understood, and easily applied to today's problems and crises. These "tools" include spatial models, the median voter theorem (and how it relates to estimating security), win sets, expected utility calculations, noncooperative game theory, and Bayes' rule. These methods are illustrated with a single, extended example concerned with the international dispute over North Korea's nuclear ambitions but also applied to a richly diverse set of other issues and questions. In this way, students get to see from the start how analytic methods and careful thinking can help tease out subtle implications of alternative approaches to major foreign policy problems, and they can even experiment with ways to solve such problems. Although the ideas are sophisticated, they require only skills possessed by beginning college students to be understood. I have worked from the assumption that readers have had no prior exposure to international relations, statistics, or model building. Additionally, to ensure that the methods are easy to understand and apply and that their relevance is apparent, the book has been classroom tested in a host of different institutions, from large state schools to small private colleges and two-year community colleges. I have incorporated feedback from students into every aspect of the presentation.

Students are taught to look beneath international problems to find the small set of key factors that contribute to cooperation or conflict. They gain exposure to problems of collective action and the difficulties of monitoring and sanctioning international misconduct, as well as to the problems that arise in trying to coordinate international interactions and deal with the distribution of valuable, scarce resources. They learn to distinguish between private goods, public goods, club goods, and common-pool resources and how each of these creates its own set of distributional, informational, and coordination problems and solutions. In each case, they are also guided toward means to resolve these problems, learning to recognize the difference between cheap talk and meaningful statements, between commitment problems and ways to design institutions to ensure commitment, and between

wishful thinking and reality.

ORGANIZATION AND PEDAGOGY

The book is organized so that the introduction and fourteen subsequent chapters follow a natural sequence for use in either a semester or quarter system. The fifth edition builds on the objectives of its predecessors while offering a more comprehensive understanding of essential insights into how to think carefully about international politics. It is organized into four large sections: (1) foundations, consisting of the introduction and [chapters 1 through 4](#); (2) war, investigated in [chapters 5 and 6](#); (3) peace, which occupies [chapters 7 through 11](#); and (4) world order, consisting of the final three chapters.

The introduction discusses alternative views of international politics and explains how problematic it is to think about states as rational, unitary actors. By developing Arrow's theorem with lots of supporting examples, it squarely challenges the common belief that states pursue their national interest. [Chapter 1](#) builds on the lessons in the introduction to explain how to use logic and evidence through the scientific method to study and understand international relations. [Chapter 2](#) offers an account of the book's central focus on the strategic perspective and the selectorate theory in particular, emphasizing how domestic politics, rather than national interest, shapes international interactions. [Chapters 3 and 4](#) then provide all the analytic tools needed to think more deeply and carefully about international affairs. These chapters combine well with the book's appendix, which provides a common base of historical knowledge for the readers and for use to generate additional, historical examples for classroom exploration. [Chapter 4](#) examines structural theories of war while [chapter 5](#) reprises that subject from the strategic vantage point. [Chapter 5](#) introduces a greatly simplified audience costs model that allows students to compare the expected results in crises when domestic politics are irrelevant (as in realist and liberal theories) from when they are relevant (as in audience cost models and the selectorate theory) to see which offers a more cogent understanding of crisis bargaining and escalation. Throughout these chapters, in addition to their thorough examination of realist and liberal theories, the book also offers extended discussion and evaluation of the constructivist approach and suggests ways to link constructivism with the strategic perspective, emphasizing their

complementarity.

[Chapter 7](#) opens the peace section by addressing how international organizations work, or don't work and why. It delves into the collective action and free rider problem with a very simple and very generally applicable model and with numerous examples that highlight why good intentions often do not translate into good outcomes. [Chapter 8](#) takes the lessons learned up to and including [chapter 7](#) to investigate global warming. It highlights why global problems often do not have global solutions and concludes with a suggested partial improvement in the treatment of global warming by looking realistically at the sort of deal that the United States and Brazil—two of the four largest greenhouse gas emitters—could strike. [Chapter 9](#) then turns our attention to another global blight: violations of human rights. It looks at the meaning, limitations, and strengths of international law and the domestic and international politics behind human rights policies. Here we see a carefully developed counterpoint between the expectations of constructivist theories, the selectorate approach, and empirical reality. [Chapters 10 and 11](#) examine trade policy. [Chapter 10](#) explores the domestic politics behind free trade or fair trade (protectionist) approaches while [chapter 11](#) looks at the same trade issues in the context of globalization and its winners and losers. These chapters introduce important concepts from economics such as comparative advantage, the production possibility frontier, opportunity costs, and supply and demand to tease out how different international and domestic circumstances shape international exchange. The chapters also offer original statistical assessments of the consequences of alternative trade policies for income inequality and for the welfare of workers and investors in rich countries and poor countries. Students may be surprised at the difference between partisan rhetoric and reality on the ground. In the final section, we look in [chapter 12](#) at foreign aid policy to extract lessons about who benefits and who is harmed by foreign aid, what its purposes are, and how it may influence the prospects of revolutions such as we saw during the Arab Spring. Taking the lessons from [chapter 12](#) to heart, we turn in [chapter 13](#) to an investigation of terrorism and its links to poverty and aid-donor policies. We examine whether commonly adopted anti-terrorist approaches reduce or increase terrorism, and we explore a game theoretic model that provides considerable insight into the difficulties in resolving terrorist threats, whether in the Middle East or at home. Finally, [chapter 14](#) applies all that we have learned to understand why efforts at

nation building and declarations of interest in spreading democracy throughout the world almost always fail and how we might improve the chances of success. Every chapter is full of timely examples, reflections on historical developments from various theoretical perspectives, and carefully explained insights from the most recent research.

Because historical examples, concepts, and techniques are interspersed throughout, always in mutual support of each other, the book can readily be taught from a variety of perspectives. The instructor can emphasize events; ideas; hypotheses; historical analysis; formal analysis; or statistical analysis as suits his or her style, needs, and preferences.

To facilitate learning, the fifth edition offers a number of pedagogical features and enhancements. Each chapter begins with an outline of the major ideas and arguments of the chapter (the Overview section) and ends with a summary that highlights the major points, helping to set up the discussion and bring it to a logical conclusion. Following the Overview section, every chapter has a brief, entertaining quiz in the Assumptions Check section. I say *entertaining* because these quizzes are designed to ask big questions for which most people think they know the answer, and the answer they think they know is incorrect or incomplete. These quizzes are intended to initiate thinking about how to think about international issues in a subtle and nuanced way. As I have learned in my own classroom experience, they are a handy way to introduce ideas about selection effects; sampling bias; counterfactual reasoning; reverse causality; and strategic, endogenous choices. Each of the quizzes is followed by answers printed at the chapter's end. I encourage instructors and students to explore these questions and contemplate the implications of alternative responses.

Because the book introduces students to many new and important concepts, students will find those *key concepts* boldfaced in the text. There is also a well-refined, extensive glossary of key terms and ideas at the end of the book so that students can spend their time learning ideas rather than memorizing terms. The book also has two indexes (subject and author)—both of which serve as valuable guides for students who want to explore the field further or begin to do bibliographic or original research.

As in previous editions, the theoretical arguments and historical and contemporary examples are accompanied by an array of figures, charts, tables, maps, and images. These include substantial, contextual captions that allow the illustrations and figures to stand alone as summary statements of

important ideas. In addition, Try This boxes found throughout each chapter pose questions that students can solve by applying concepts introduced in the book. (Some of these are picked up in the student workbook, *Applying the Strategic Perspective*, as problem sets.) Everything has been designed to stimulate students' interest and understanding and encourage students to continue their investigation of international relations while having fun with the subject and filling them with *aha* moments as they listen to news reports or take other courses where the ideas here will provide an *aha* perspective.

A UNIQUE TEACHING AND LEARNING PACKAGE

More than ever, students and adopters will find excellent support for these diverse approaches in the ancillary materials that accompany the text, including the student workbook, the companion website for students, and the instructor's resources that are available for download. The superb student workbook—*Applying the Strategic Perspective*—thoroughly revamped for the fifth edition by Professors Alejandro Quiroz Flores and Anna Getmansky, provides detailed coverage and more extensive problem sets than in earlier editions. New problems early in the chapters help beginning students work through some of the nuts-and-bolts aspects of the strategic perspective—everything from learning to create and interpret symbolic expressions to helping identify independent and dependent variables. At the end of each chapter, students who wish to do so are able to stretch their capabilities with more complex problems in the Extensions section.

Students will find a host of resources available to them on the companion website at <http://bdm.cqpress.com>. Brief chapter summaries and questions for review help guide student learning by identifying and clarifying key concepts in each chapter. An interactive Flashcard feature enables students to study and review key terms and tells them where each is located in the text. Online quizzes feature multiple-choice and true/false questions to allow students to self-test and report scores to instructors. Exercises for each chapter provide students and instructors with opportunities to practice basic problems either alone or in class. Finally, Walk Throughs allow students to explore difficult problems in an interactive setting, helping them see how to conceptualize and solve significant international relations problems tackled in the text and the supporting materials.

Students and instructors interested in my online policy forecasting

software for classroom use can register for free at www.predictioneersgame.com. Just click on the game tab, click on “Access the online game here,” register for the student version, and once authorized (I do this almost daily; if there is a delay, send me an email at bbd2@nyu.edu and I’ll get on it right away), read the online training manual and you are ready to go. This software is similar to that used by the US government in making major foreign policy decisions and by large corporations in dealing with significant policy choices. Simplified for easy use and interpretation, students can use the Predictioneer’s Game to explain and predict current international problems, whether these involve issues of international political economy, security studies, or anything else.

A full set of instructor’s resources is available for download at www.cqpress.com/prof/Ancillaries-Download.html. These include the following:

- A comprehensive test bank with more than 400 multiple-choice and short essay questions created by Anna Getmansky. The test bank is available in Word and WordPerfect formats as well as fully loaded in Respondus, a flexible and easy-to-use test-generation software that allows instructors to build, customize, and integrate exams into course management systems.
- A set of 280 PowerPoint lecture slides and a full set of Walk Throughs from the web, written and edited by Anna Getmansky for the fifth edition, for use in lectures and to help ease class preparation.
- All of the tables and figures from the fifth edition textbook and workbook in .pdf format and PowerPoint slides for classroom presentation.
- An instructor’s manual with “at a glance” lists of topics and methods, discussion of key topics and arguments, lists of important points to bring up in class, discussion questions, and links to relevant topics in the book.

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About the Author

Bruce Bueno de Mesquita is the Julius Silver Professor of Politics and director of the Alexander Hamilton Center for Political Economy at New York University and a senior fellow at the Hoover Institution at Stanford University. He specializes in the study of international conflict, foreign policy formation, the peace process, nation building, the political economy of dictatorship and democracy, and policy forecasting. Bueno de Mesquita, who has appeared on Comedy Central's *The Daily Show* and *The Colbert Report*, also has been a guest on Fareed Zakariah's *GPS* on CNN and has been on all of the major television networks as well as National Public Radio and other major media outlets. He is the author or coauthor of nearly 140 scholarly articles and seventeen books, including *The Dictator's Handbook* (with Alastair Smith; Public Affairs Press 2011), *The Predictioneer's Game* (Random House 2009); *The Strategy of Campaigning* (with Kiron Skinner, Serhiy Kudelia, and Condoleezza Rice; University of Michigan Press 2007); *The Logic of Political Survival* (with Alastair Smith, Randolph M. Siverson, and James D. Morrow; MIT Press 2003); *War and Reason* (with David Lalman, Yale University Press 1992); *The War Trap* (Yale University Press 1981); and one novel. He has also been the subject of feature stories in the Sunday magazine section of the *New York Times*, the *Economist*, the *Wall Street Journal*, *US News and World Reports*, London's newspapers the *Independent* and the *Financial Times*, as well as *Good Magazine*, *Computer World*, and a two-hour documentary about his forecasting broadcast on the History Channel.

Bueno de Mesquita is counted by *Foreign Policy Magazine* as one of the top 100 global thinkers. In 2007, he won the DMZ Peace Prize for contributing to the advancement of peace on the Korean Peninsula. He has received numerous other professional awards and is a former Guggenheim Fellow, recipient of the Karl Deutsch Award, and a member of the American Academy of Arts and Sciences and the Council on Foreign Relations. He was

president of the International Studies Association in 2001 and 2002. Bueno de Mesquita is also extremely proud of being the recipient of New York University's Golden Dozen Award given annually to its top dozen teachers.

Introduction



Leaders in democracies, like President Obama, generally get elected by winning support for their domestic policies but then they must go ahead and formulate foreign policies whether they were selected on that basis or not. Here we see President Obama campaigning among prospective Hispanic voters with whom his immigration policies gave him a significant edge over his Republican rival, Mitt Romney. With their support, he has won a second term in which he will need to confront economic and security problems all around the globe, many of which were not high on the list of priorities of his voters. All of international affairs is shaped by domestic political considerations.

OVERVIEW

- We begin the study of international **politics** by outlining an

approach to the field that differs from traditional ones: we focus on leaders and their **constituents**, not **states**.

- Arrow's theorem provides an explanation for why talking about the **national interest** or states as **unitary actors** is problematic and prone to important policy errors and mistaken explanations of patterns of international interactions.
- National leaders are thought here to be motivated by personal, not national, interests. Their foreign policy decisions are constrained by **domestic politics** as much as they are by forces external to the nation.
- Yet, whatever their policy **preferences**, leaders must coordinate their foreign policy actions with other leaders and rivals, both domestic and foreign.
- The study of **international relations** may best be understood as the individually motivated strategies that shape war, peace, and world order.

Assumptions Check

Before we even get started, let's take a moment to have fun with some facts. Try answering the next five questions. They will give you a peek into how to think about international politics:

1. It is a fact that about 70 percent of the time when a country with allies is attacked, the allies don't come to their partner's aid. With this fact under your belt, which do you think is more likely?
 - a. Alliances are unreliable.
 - b. Alliances are reliable.
2. Protecting American workers from unfair foreign competition (in which foreign goods are sold more cheaply than their cost) _____.
 - a. increases employment in the United States
 - b. decreases employment in the United States
3. When power is balanced between rivals, war is _____.

- a. more likely
 - b. less likely
 - c. neither more nor less likely
4. If we had a worldwide agreement to reduce greenhouse gas emissions, then we would see _____.
- a. significant compliance and a significant decrease in greenhouse gas emissions
 - b. significant compliance and little decrease in greenhouse gas emissions
 - c. little compliance and little decrease in greenhouse gas emissions
5. Giving government-to-government foreign aid _____.
- a. improves the quality of life for the poor in poor countries
 - b. decreases the quality of life for the poor in poor countries

Okay, we've had some stuff to think about. The rest of this book is about establishing why these answers are the right answers, and we'll see lots more puzzles and solutions besides.

See end of chapter for answers.

International politics is about war, peace, and world order. These three categories may seem straightforward enough, but they are fraught with complications. Everyone says they are against war and for peace, yet war happens (although with less frequency than in the past) and the peace of ordinary citizens in places like North Korea, Zimbabwe, or Cuba is no bed of roses. Everyone says they want an orderly, predictable world, yet the world of international affairs looks messy and even chaotic. Questions about the causes and impediments to war, peace, and world order frame three important sections of this book just as they form the major subjects of international politics, and, for that matter, of all politics. But before we can tackle those topics, we need some ways to organize our thoughts about them, which we acquire in this first, foundations section of the book. Then we can analyze why things happen the way they do whether the subject is war, peace, or

world order.

We examine really carefully what the causes and consequences of war are. In doing so, we recognize that war and lesser uses of force reflect a breakdown of peace, but they can also represent the necessary foundation for establishing an enduring peace. War is a poor way to settle differences, but the peace imposed by Hitler surely would have been even worse. War is, indeed, hell, but sometimes it is not possible to justify peace over war. So being for peace—who isn't—and being against war is not quite the same thing.

There are two really big questions about war that need to be answered. First, why do wars happen? After all, if belligerents knew how a war will turn out, they could always strike a deal beforehand that gives both sides the same results as they will get from fighting, and they could avoid the bloodshed and destruction of combat. Second, are there winners and losers in wars, or is everyone a loser? Here we will see that while war has many losers often there are a few winners and those few winners tend to be government leaders. We will see that too often national leaders don't seem to mind putting their people at risk for their own personal political gains. The implications behind the answers to these two big questions can sometimes be powerfully unsettling—as we will see.

After sorting through questions about war, we evaluate international affairs during times of relative peace. Here it is useful to recognize that war and peace are a continuum and not two completely distinct circumstances. During relatively peaceful times, governments can put more energy into thinking about the policies they will follow to foster **trade** and to stimulate business and industry at home. Of course, the policies that advance business at home may be at odds with the policies that promote trade and so government leaders have to work out how much they wish to emphasize one means to promote prosperity at the expense of the other. And sometimes solving problems about trade-offs in times of peace are the causes of subsequent wars.

Peacetime also offers the opportunity to shore up friendships or forge shared interests among former adversaries in the hope of promoting future peace and prosperity. It is a time to establish laws and **norms** of conduct to secure the prospects of continued peace but also to address differences that might lead to future conflict. During periods of relative peace, there is an enhanced opportunity to encourage respect for fundamental **human rights**

and **civil liberties** and equally, by some, an opportunity to resist pressure to adhere to norms of good conduct toward other nations and one's own citizens. Some governments duck hard problems by turning responsibility for them over to international, multilateral organizations like the United Nations, the International Monetary Fund, or the Asian Development Bank, and sometimes these organizations come up with compelling ways to address hard problems. When they do, it can prove easier for the leadership in any country to go along with externally suggested norms than it is for them to establish those norms at home in the first place. We will try to understand when **international organizations** can help promote the very peace and order that individual governments have failed to impose, and we will try to understand when and why such efforts, as with global warming thus far, have failed.

Peace and war both provide time to lay the foundations for world order. Between some idealized notion of peace and some extreme circumstance of war lies the realm of world order in which carrots and sticks, rewards and punishments, development and **nation building**, alliances and cartels are all used to structure daily interactions and to provide solutions—for better or worse—to fundamental foreign (and domestic) policy questions.

DOMESTIC POLITICS SHAPE INTERNATIONAL POLITICS

Most explanations of international politics assume that states are the central players. I disagree. I contend that decision makers are the main players and that to understand their policies in the international arena we must evaluate how their actions are colored and shaped by the domestic politics and economics of their country. I will offer what I hope you will agree is compelling logic and evidence for the claim that domestic politics shapes international politics. If we persist in the dominant mode of thinking that views *states* as actors, pretending that what happens inside them is not important, we will find that international politics appears convoluted and sometimes even perverse, and we will make really big errors in promoting incorrect solutions to pressing foreign policy problems. If we look within states at their domestic circumstances, then much of what now seems confusing will fall into place.

Consider that variations in how free people are in different countries markedly influences governmental trade and security policies, as well as virtually all quality of life indicators. Freer countries, with few exceptions, outperform more autocratic states on just about every measure of peace and prosperity. Freer countries—meaning more democratic countries—just about never fight wars with each other and just about always are more open to **free trade** than more dictatorial regimes. Yet for all the positive effects of freedom within a country, we will see that sometimes these very internal freedoms act to jeopardize the extent to which a government tries to advance freedom elsewhere in the world. For instance, the two greatest powers in the contemporary world—(1) the United States and (2) most of the countries that collectively make up the European Union—routinely declare themselves in favor of freedom while doing little to advance it. In fact, just about every president of the United States, at least since Woodrow Wilson (1913–1921), has claimed he is committed to the spread of freedom, democracy, and self-determination. Yet, as we will see, American presidents have largely failed to fulfill the promise of freedom, democracy, and self-determination even when the opportunity has landed in their lap. Although international pressures may make the pursuit of democratic nation-building hard, domestic pressures to promote policy **compliance** from foreign governments may be more significant in deciding whether a hostile foreign democracy is preferable to a docile foreign dictatorship.

Lest you think this is an overly cynical view, reflect on the fact that President Barack Obama ordered his UN ambassador in 2011 to **veto** Palestine's bid for recognition as a sovereign state worthy of UN membership. Does this mean that the United States is against Palestine's quest for statehood? The US government has repeatedly, in administration after administration, said it favors the creation of a Palestinian state under the right conditions. Does this mean that the president personally is against Palestine's quest for statehood? He personally declared the opposite in Cairo on June 4, 2009, when he said, "[T]he situation for the Palestinian people is intolerable. America will not turn our backs on the legitimate Palestinian aspiration for dignity, opportunity, and a state of their own."¹ Does it mean that a Palestinian state in the United Nations undermines US security? Does it mean that a vote for Palestine might alienate critical swing voters in an American presidential election? Does it mean that the United States values Israel's interests over Palestine's? Does it mean that Palestine's freely,

democratically, competitively elected government is not worthy of representation in the United Nations even as dictatorial, oppressive North Korea's is? Answering these questions can be hard, even painful, but answering them also compels us to think about what motivates important foreign policy choices.

Each of these questions points to a deeply different way to think about international affairs, ranging from some notion of the national interest determining what "states" do to some notion of an individual leader's interests driving what that leader does in the name of her or his state. This book is squarely in the camp of those who think that all politics—international and domestic—is about leaders doing what they believe best advances their personal interests. Sometimes, and under some methods for choosing leaders, a leader's personal interests will coincide with what most of her citizenry want, making it hard to tell a leader's interests apart from what we might think is the national interest. But other times what "we the people" want and what a leader does will be radically different, and then it will be easier to tell whether leaders are concerned about their own political well-being or the welfare of the state and people in whose name they govern. Learning how to tell the difference between leader interests and citizen interests is tricky, depressing, and hugely informative. Indeed, doing so is central to understanding international politics and, in fact, all of politics.

To understand why telling the difference between leader interests and the "national interest" is tricky, we need to learn to systematically evaluate what individuals want and how to translate those individual wants into some meaningful notion of the national interest or the general welfare. You may be surprised to know that translating individual desires into some transparent accounting of the national interest can be profoundly difficult and that knowing whether or not we have done so is, in fact, impossible. Let's see why.

POLICY AND RATIONALITY

Whether we think of international affairs as the consequence of state actions or individual actions, we must make some **assumptions** about how actions and objectives are chosen. Surely we can agree that actions are chosen in the hope that they will advance the chooser's objectives, but exactly how that happens is a trickier issue. If, for instance, we think cultural concerns

dominate what people desire, then we must assume that people act on their culturally learned preferences. The same is true whether we assume that internal **power** arrangements, leader incentives, **national security** concerns, or pretty much anything else dictates what people, decision makers, or states want and what they do to achieve their desired ends. The alternative to making assumptions that tie actions to desires is to think of people making choices blindly, without regard to what they want—almost like dust drifting randomly up and down in the wind. I dismiss the idea of people as dust particles moving chaotically as in Brownian motion and prefer, instead, to think of each and every one of us as purposive, intent on trying to do what we each think is best for ourselves.

Fortunately, if we analyze people as doing what they think is best for them—and, of course, they could prove to be mistaken in their **beliefs**—then we have a straightforward way to think about the relationships that tie individual objectives to individual actions. That straightforward way is to assume that whoever (i.e., individual citizens, leaders) or whatever (i.e., states, international organizations) makes choices, makes those choices rationally. Standard accounts that treat states as the important players in international affairs routinely assume that states are rational actors. Thus, the commitment here to the assumption of **rationality** is nothing new or out of the ordinary; it is standard practice. I depart from much international relations thinking, however, in that I treat individual decision makers rather than whole states as rational. As we will see, this makes for some very important differences.

Rationality, unfortunately, has taken on lots of colloquial meanings that have little to do with how I (and many others) use that term so let me lay out what rationality does not mean as I use the term and then explain what it does mean at least for me. An otherwise superb study by the historian H. A. Drake (2000) states concisely common misconceptions or caricatures of rational actor models—at least in the way that phrase is used by people who study politics or economics from a rational actor point of view. Drake writes the following:

In its purest form, the Rational Actor approach presumes that such a figure [as the Emperor Constantine about whom Drake wrote] has complete freedom of action to achieve goals that he or she has articulated through a careful process of rational analysis involving full and objective study of all pertinent information and alternatives. At

the same time, it presumes that this central actor is so fully in control of the apparatus of government that a decision once made is as good as implemented. There are no staffs on which to rely, no constituencies to placate, no generals or governors to cajole. By attributing all decision making to one central figure who is always fully in control and who acts only after carefully weighing all options, the Rational Actor method allows scholars to filter out extraneous details and focus attention on central issues. (2000, 24)

Drake's description highlights a fundamentally different view of rationality than the one taken here or adopted by many economists. For instance, Drake argues that to be rational one must undertake "analysis involving full and objective study of *all pertinent information and alternatives*" [emphasis added]. Such a study would surely be irrational. A rational person, as thought of here, considers alternative courses of action only up to the point when they conclude that the expected cost of continued study of information and alternatives is equal to the expected benefit. If the cost of searching out more information is expected to exceed the benefits from such a search then it is time to stop searching. Just ask yourself, would you spend \$1.00 to earn 25 cents or even 99 cents? Of course not! You are better off keeping your dollar than knowingly ending up with less. Naturally, you might spend a dollar to have a *chance* to earn extra money—that is part of why people buy lottery tickets or invest in education, like you are doing—but it doesn't make sense to inflict costs on yourself when the value of the expected return is smaller to you than the cost.

Drake also portrays rationality as imposing the view that there is a solitary decision maker who decides what to do and who is completely free to ignore the views of advisers, constituents, and everybody else. This is equivalent to the common assumption that states are unitary actors with nothing pertinent going on inside their borders that might influence the choice of actions. To be sure, a rational actor does what he/she/it *thinks* best advances his/her/its interests, but for the sorts of problems we will learn about, a rational political actor is not free to choose without considering the consequences of those actions, including how others are expected to react. The fundamental problem for rational politicians is to work out what is the best action to take given not only their own preferences but their beliefs about the expected actions and desires of others, including friends and foes. We

will see more carefully how important this distinction is when I introduce **game theory** in [chapter 4](#) as a way to think about the strategic interplay that characterizes international affairs. Now, however, let's define what is minimally required to say that a person is rational. These criteria will be applied throughout this book and can be usefully applied whether you are thinking about international politics, deciding where to have dinner with some friends, or doing something as mundane as buying a loaf of bread.

In its simplest, most minimalist form, rationality requires very few assumptions about how people make choices. Each chooser is assumed to have complete and transitive preferences and he or she acts on them. Completeness means that any individual faced with choices, say between alternatives x and y , can say "I prefer x to y " or "I prefer y to x " or "I am indifferent between x and y ." For example, every rational person who is asked to choose between spending an extra \$1 billion on defense or on unemployment benefits can link these alternatives with a relation of preferences by saying, "I prefer to spend an extra \$1 billion on defense over spending an extra \$1 billion on unemployment benefits" or "I prefer to spend an extra \$1 billion on unemployment benefits over spending an extra \$1 billion on defense" or "I am equally happy to spend an extra \$1 billion on defense or on unemployment benefits, I don't favor one over the other." "I prefer" is sometimes denoted as $>$ and "I am indifferent" is denoted as $\approx$.

Transitivity adds one more burden to anyone who can be said to make rational decisions. Suppose a person is asked to choose between spending an extra \$1 billion on defense or on unemployment benefits or on education (or, for that matter, not spending an extra \$1 billion on anything). Completeness requires that our hypothetical rational individual can state preferences between each pair of these choices. Transitivity imposes a limitation on those preferences. In particular, if a person making a choice, let's name her Ann, prefers spending \$1 billion more on defense over unemployment benefits and prefers spending \$1 billion more on unemployment benefits than on education, then transitivity requires that Ann prefers to spend \$1 billion more on defense than on education. Using $>$ to mean prefer, transitivity requires that for any choices x , y , and z , if for Ann, $x > y$ and $y > z$ then $x > z$. That's a pretty minimal requirement that just asks people to have coherent preferences. Consider what can happen if this is not true.

Imagine that Ann is a lobbyist who has \$60 million to spend on trying to influence Congress's choice among policies x , y , or z . Furthermore, imagine

that Ann has intransitive preferences so Ann's preferences look like this: $x > y > z > x$. For the sake of argument, imagine that by spending \$20 million on lobbying Ann can persuade enough members of Congress to switch their votes so that Ann can influence whether x , y , or z is chosen. At the time Ann becomes energized to try to influence Congress the existing congressional policy is y . Given that Ann wants x over y , we can see that Ann will happily spend \$20 million of her \$60 million lobbying budget to shift Congress's policy away from y and to x . Now, with Congress prepared to vote for x , Ann realizes that she can and should spend \$20 million of her remaining \$40 million to convince the Congress to favor policy z over x since, after all, she likes z better than x ($z > x$). But seeing that z is about to become the new policy, Ann is unhappy. She doesn't like z as much as she likes y ($y > z$). So Ann allocates \$20 million, her entire remaining budget, to a lobbying effort to alter the congressional vote so that it favors y instead of z . Having launched a successful lobbying effort, Ann now finds herself just as unhappy with the Congress's policy as she was at the start (remember she started by lobbying to switch the policy from y to x)—only now she has no money left with which to persuade Congress to switch from y to x . It is evident that with intransitive preferences, Ann will have spent her lobbying budget and will have accomplished absolutely nothing. Intransitive preferences make it impossible for a person to do what they believe is in their best interest because they do not have a coherently defined interest.

The assumption of rationality is a starting point for constructing **theories**. The rationality condition sets out the theorist's view of how people are likely to select actions given their motivations or preferences; it says nothing about the content of those preferences (Zagare 1990; Jackman 1993). Rational choice models are models of action. They predict what people are expected to do depending on what their individual preferences are and depending on the constraints they face, such as, for instance, the choices of other people. The precise assumption about what actors prefer varies from theory to theory. Sometimes critics mistakenly believe that the assumption of rationality means that self-interested actors must want to maximize their income or wealth, a condition commonly (but certainly not universally) assumed in models of individual or firm behavior in market economics but uncommon in political science rational actor models, even oligopoly models of international relations (Powell 1993, 1999).

International relations models vary in what they assume as the ultimate

goal or set of goals of their actors. These goals may be national security; national power; personal wealth; control over international rules, norms, or policies; personal power; survival in office; decision-making discretion, or a host of other possibilities. The actors may be individual citizens, elites, leaders, states, nongovernmental organizations (NGOs), international governmental organizations, multinational corporations, or many other entities. Thus, the assumption of rationality neither limits the goals to be studied nor the identity of the actors pursuing those goals. It only limits how actors choose actions given their desires and beliefs.

I have stipulated the assumptions of completeness and transitivity as the minimal requirements for rational behavior. Later we will add more constraints to establish more demanding definitions of rationality, but these two requirements will always be there. And with these two minimal requirements in place, we can move on to think carefully about what might be in the national interest and why that concept proves wanting when we talk about international relations and foreign policy. This is important to do because there is a great divide between those who think of states as rational, unitary actors and those who think of international politics being shaped by the pulls and tugs of both domestic and foreign political actors. The national interest, as we will see, is easily—but perhaps not meaningfully—specified if we assume states are rational unitary actors. Such an assumption means that states, and not any individuals within a state, are the holders of complete and transitive preferences and that the state acts on them. The national interest, then, is pretty much whatever the state—a solitary, dictatorial decision maker—chooses it to be. But if there are political divides within a state—and when aren't there?—then the idea that the state reflects the national interest requires that the state implements some rule for adding up individual preferences to figure out what is in the collective, national interest. As we will see, it turns out to be *impossible* to pick a rule that we can be assured will routinely and accurately aggregate and translate our individual desires into a meaningful specification of the national interest. That is, we will see that we can almost never be confident that we have a way to go from what lots of individuals want to what “We the People” want. Knowing that should profoundly alter how we think about international politics.

IS THERE A NATIONAL INTEREST?

Two central tenets behind most studies of international relations are that there is a national interest and that states pursue that interest. Different people propose different core contents for the national interest. Hans Morgenthau ([1948] 1978), the father of modern realist thinking, thought that the highest interest of any state was to increase its power in the world so that it can get others to do what it wants even if they prefer doing something else. Kenneth Waltz (1979) introduced **neorealism** as a friendly amendment to realism. Neorealism argues that states are first and foremost interested in their prospects of survival. Therefore, neorealist states always take whatever actions they can to make themselves more secure against foreign threats. Sometimes that can even mean giving up some power to gain security (Niou, Ordeshook, and Rose 1989)—contrary to Morgenthau's realist view. Liberal and neoliberal thinkers, like Robert Keohane and Joseph Nye (1972, 1977), agree that states have overriding interests but for them the premier interest is to achieve prosperity within secure borders. A. F. K. Organski (1958), the founder of **power transition theory**, maintained that states sought control over the rules and norms governing international interactions and that power and growth were the critical paths to such control. Others offer still other principles that dictate what states want and what, therefore, serves their purported national interest.

The very fact that different analytic perspectives emphasize different interests as the core behind any state's national interest should alert us that there is something really problematic here. If, after all, there is a national interest and all states share it then we might reasonably think that everyone ought to agree on what it is. Yet the debates among realists, neorealists, liberals, neoliberals, power transition theorists, hegemonic power theorists, and many others make clear that there is not a consensus on what the national interest is or ought to be or that it might vary from state to state. These differences raise a legitimate concern about how we can know what the national interest is, but that concern, troubling though it is, turns out to be relatively minor. There is a much bigger concern called Arrow's (1951) impossibility theorem.

Arrow's theorem teaches us that when a group of people must choose among three or more alternatives no rule or voting system that meets some basic fairness criteria can be designed to guarantee that it can take each decision maker's complete and transitive preference ordering into account and create a group ranking that is also complete and transitive and that

represents the will of the group. Because no rule can assuredly work in all cases, we can never really know whether the policy the rule chooses is actually in the general interest. Since the theorem applies whether we are talking about the people living in a state, or its voters, or committee members, club members, or any other social grouping its application is universal and its implications extremely serious.

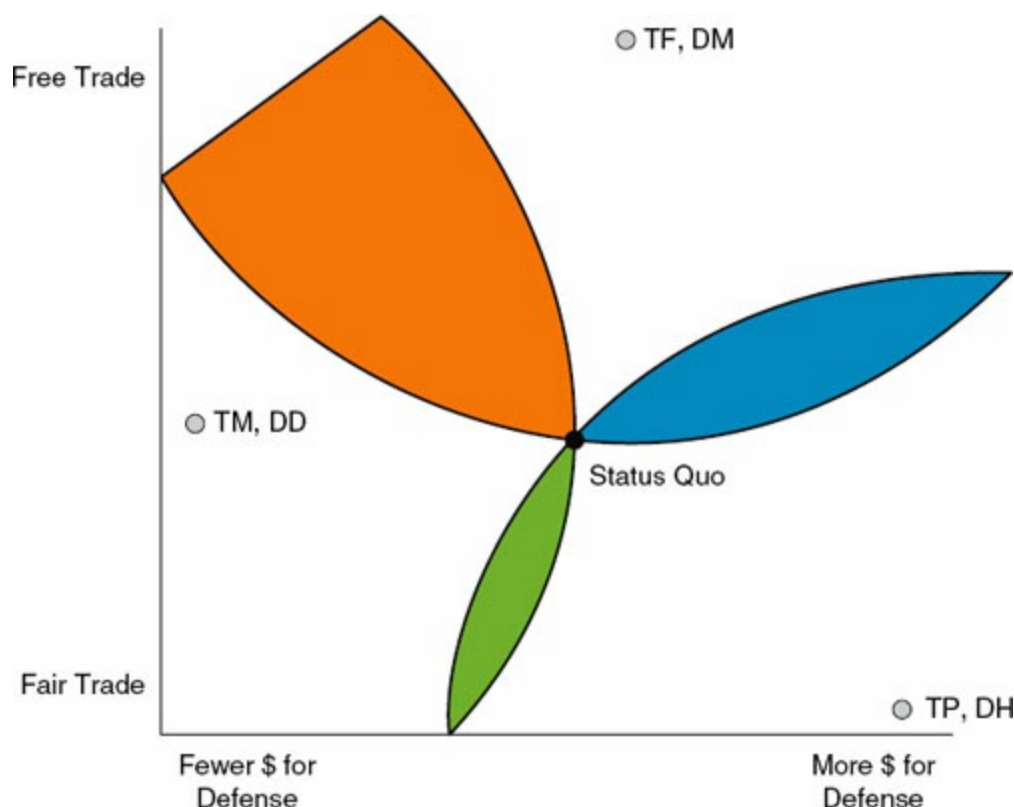
Before explaining Arrow's fairness criteria and what Arrow's discovery means for the idea of a national interest, let's first talk about how we might go about defining intuitively what we mean by the national interest. Personally, it seems sensible to me to think of a foreign policy as being in the national interest if it is supported by at least a majority of the people and preferably by a large majority. Unfortunately, as we will see, such a simple notion of the national interest, while appealing in its effort to reflect what almost everyone wants, just doesn't work. Let's start with an illustrative example that highlights how little we can infer about the national interest even if we know or observe correctly that a supermajority favors a particular foreign policy, say maximizing national security.

Consider two very important areas of foreign policy: (1) national defense and (2) trade. Defense spending is at the heart of acquiring security against foreign threats. Trade policy is critical to shaping national prosperity, including, therefore, the ability to afford adequate defense. Now let's imagine that the American electorate is (for simplicity's sake) divided into three equal-sized camps. In reality, there are surely many more factions than that in American politics or pretty much any country's politics. More factions will only exacerbate the problem I am about to demonstrate. Assume that the first faction consists of those who favor a protectionist trade policy (high **tariffs**—essentially a tax—to keep foreign goods from competing with American-made goods in the United States) and who also support a larger defense budget to protect the United States from foreign threats. The tea party movement, which gained prominence within the ranks of the Republican Party in 2010, fits this description rather well. In [figure I.1](#), this set of preferences is labeled as TP (trade protectionists) and DH (defense hawks). The second group, denoted TF (free trade), DM (defense moderates) is made up of those who are pro-free trade (i.e., no restrictions on goods imported to the United States; TF) and those who believe current defense spending is about right so they are defense moderates (DM). Many centrist, independent voters fall within this camp. The third group is made up of trade moderates

(TM) who believe the US government has the right balance between tariffs and free trade but believe that defense spending is too high (defense doves, or DD) and needs to be cut. Many liberal Democrats fit this description. Each group is in favor of maximizing national security, being convinced that doing so is in the national interest. They just disagree about what policies best accomplish this goal.

Each faction prefers any mix of defense and trade policy closer to its gray dot in figure 1.1 than to the status quo. That range of preferred policies can be easily identified by drawing an arc (or circle) through the status quo point and making sure that the center of the arc is the faction's most preferred policy mix. Then the radius of the arc is exactly the distance from the faction's preferred policy—its gray dot—to the status quo.² For instance, the green area shows all of the policies that reflect the overlap between the policies preferred by both TM/DD and the TP/DH factions. We know this because the green area is in each faction's arc, showing that each prefers the policies represented by the shaded area over the status quo.

FIGURE I.1 What Is in the National Interest?



The green policy coalition between these two factions includes two-thirds of the electorate. This coalition wants to cut defense spending somewhat and expand protectionist trade policies markedly; that is, they would adopt any mix of defense and trade policy in the checkerboard area since all of these policies are closer to what they want than is the existing policy. Okay, with two-thirds of the electorate behind these changes, one might readily think that any of the policy shifts in the checkerboard area reflect the national interest. But hold on a moment. If we look at the blue area in [figure I.1](#), we see that it contains all the policy changes favored jointly by the TF/DM group and the TP/DH group. This coalition of voters wants to increase defense spending and eliminate tariffs, shifting to a freer trade policy than the status quo. They too can garner two-thirds of the vote. This two-thirds national interest wants the opposite of what the green coalition, also with two-thirds of the vote, wants. And finally, two-thirds of the voters, the coalition that could be composed of the TM/DD faction and the TF/DM faction, support a great reduction in defense spending accompanied by much freer trade (the orange area). So we have two-thirds of the voters in favor of higher defense spending and two-thirds supporting less defense spending; we have two-thirds wanting freer trade and two-thirds wanting fairer trade and all of this without changing a single voter's preferences or opinions. This is surely a conundrum for those who claim we can speak of states as unitary rational actors with a clearly identifiable national interest. But this is merely an example, and maybe such circumstances are rare. Let's return to Arrow's theorem to see the problem in a more general form.³

Arrow and Social—National—Welfare

We have agreed that rational people act on their complete and transitive preferences. It is hard to imagine that this notion of rationality does not include just about everybody when it comes to important decisions. We have already seen that even though each individual meets the definition of rationality we can defend just about any mix of trade and defense policy as rationally desired by two-thirds of the electorate. All we had to do was link the two decisions to each other. Maybe we would not see such a perverse outcome if we treated issues separately or if we applied some other rule to working out what is really in the national interest.

Since the priorities that may determine the national interest could easily

change under different circumstances, it would be nice to have some mechanism for uncovering what the national interest is at any given moment rather than tying it to specific policy choices, like defense and trade. For example, a strong national defense may be important during times of intense conflict—even if it comes at the expense of the economy. During peacetime, however, we can imagine that many people will want their government to spend less on defense and more on promoting prosperity. So rather than define the national interest as some specific policy, we should strive to identify some rules that we can always turn to and that will let us work out what is in the national interest in any context—foreseen or unforeseen. This means that we need some way to add up individual preferences to find out what, in the aggregate, the national interest is—that is, what “We the People” want. That would seem like a much better approach than to arbitrarily assume that you or I *know* what is in the national interest for all time and under all circumstances.

Arrow suggested four principles that almost everyone can agree provide a basis for talking about the national interest or social well-being based on the aggregation of each of our individual interests. He realized that we need a rule, like **majority rule** for example, that would be fair and would allow us under any circumstances to discover what is truly in the general interest. Arrow specified the following four criteria that any preference-aggregation rule should adhere to so as to ensure its fairness, and then he asked whether we can discover one or more rules that are fair and reflect general welfare:

1. Universal domain
2. Social transitivity
3. Pareto improvement (e.g, unanimity)
4. Independence of irrelevant alternatives

Universal Domain

Universal domain says that each of us is free to believe whatever we want and the rule for adding up our preferences reflects what we want. If as a society we must set priorities, for instance, over government spending on defense, health care, education, social security benefits, subsidization of opera companies, subsidization of rodeos, etc., I am free to prefer any ordering over spending on these policies and so is everyone else.

Satisfying universal domain clearly is important if we are to view any

rule for adding up preferences as a fair rule. It would hardly be fair, for instance, if some government law or regulation prohibited any of us from thinking that more social security benefits are preferable to spending more on defense or, conversely, that spending more on defense is preferable to spending more on social security benefits. What is more, universal domain equips us to handle any choices we might have to make in the future. It gives us a condition that can be applied to policy debates that we might not yet even be able to imagine. Freedom of thought, for instance, helped make it possible to debate expanding suffrage to blacks in the nineteenth century (and then again in the late twentieth century in the United States) and to women in the early twentieth century, just as universal domain made it possible to consider gay marriage, cyber-warfare, creating or dissolving the euro, and tons of other policy debates that George Washington could never have imagined.

When we get to [chapter 3](#), we will see an argument for weakening the demands of universal domain. [Figure I.1](#) already slipped in an assumption that violates universal domain by stipulating that each faction prefers policies closer to what it really wants than those (like the status quo) that are farther away. This particular assumption is called single-peakedness, and we will look closely at the leverage it can give us and the limitations it imposes.

Social Transitivity

We already know that rational individuals need to have transitive preferences. It might seem evident that if everyone's preferences are transitive then when we add up all of their individual preferences to work out what society wants, the social preference ordering will also be transitive. That, however, need not be the case. Because it is often not the case, many seemingly appealing rules for identifying what the national interest is run into trouble. Without socially transitive preferences, for example, majority rule breaks down. Let's see how this works with an example.

Imagine that Congress can be divided into three broad foreign policy factions, called hawks, doves, and moderates. Hawks, as in our earlier example, believe that the best defense is a strong offense. They believe it is important to project American power abroad to nip any nascent threats to the United States in the bud. They want to spend more on defense than is the current policy. If they cannot get support for more defense spending, then they will back the current status quo spending rather than shift money away

from defense and toward, say, **foreign aid**. Doves believe the United States is made most secure by winning over the hearts and minds of people and governments around the world through foreign aid. They want to take money out of the defense budget and put it toward foreign economic assistance. But they are convinced that current policy is not working, so if they cannot get Congress to spend more on foreign aid then they believe it would be better to bolster defense rather than stick with the current balance between the two. Moderates believe that the interests of the United States are advanced by the current balance between the projection of military might and the use of foreign aid to win over hearts and minds, but they lean toward aid over defense if a change has to be made. Now suppose Congress is debating how much to spend on defense and on foreign aid. Here are the preference orderings of the three factions when they must choose between more for defense, more for foreign aid instead of defense, and the existing balance between the two:

Hawks: Defense > Balance > Foreign Aid

Doves: Foreign Aid > Defense > Balance

Moderates: Balance > Foreign Aid > Defense

Each faction has a transitive preference ordering. Universal domain reminds us that each of these individual preference orderings over the policy choices is feasible and can be held by anyone. Of course there are other orderings that are also possible, but let's see what happens if we apply majority rule to these three factions assuming each has an equal number of votes.

If we pit defense against balance, we discover that hawks and doves vote for defense over balance, so it wins with a two-thirds majority. Taking the winner, Congress votes on defense versus foreign aid. Moderates and doves support foreign aid, so it wins over defense with a two-thirds majority. Finally, the moderate faction, feeling a bit unhappy with the outcome, suggests voting on foreign aid and balance. To the disappointment of the dove faction, they discover that hawks and moderates give a two-thirds majority to balance over foreign aid. So the three factions discover that for Congress as a body (made up of only these three factions) defense > balance > foreign aid > defense. Majority rule leaves Congress in a hopeless bind cycling from one allocation to another and to another and back to the

beginning, just as was the case when voters were asked to trade-off between two policies in the example shown in [figure I.1](#). Even when each individual holds complete and transitive preferences, as in our current example, and they only have to decide on one policy issue at a time, it is still possible for the individually transitive preferences to be socially intransitive, a discovery first made in the eighteenth century by the French scholar, the Marquis de Condorcet. What we have just seen is that a rule requiring majority support does not assure us of having sorted out what a majority wants even though each individual chooser meets the least demanding conditions for rationality.

The idea that people like alternatives closer to their most preferred policy over those farther away (single-peakedness) solves the problem of social intransitivity if we examine one issue at a time. It doesn't solve the problem if, as in [figure I.1](#), we look at a choice that involves trading off two policies or two different dimensions of a single policy. If we worry about a trade-off between guns and butter, for instance, we have linked social spending and defense spending. Then we have not escaped the risk of socially intransitive preferences by assuming single-peaked preferences. If we examine defense spending independently of social spending, then we have social transitivity with single-peakedness but at the price of having violated universal domain.

Pareto Improvement (e.g., Unanimity)

Majority rule apparently can fail us; a super majority rule—like two-thirds—can fail us, but surely a tougher rule, like unanimity, cannot. It seems self-evident that if a policy is unanimously preferred to another policy then a fair system will always select that unanimously preferred policy over whatever it beats unanimously. After all, a fair rule should include the idea that a condition that makes everyone at least as well off or better off and makes no one worse off is better than a rule that makes some better off at the expense of others. This is the condition of **Pareto improvement**, which is assured in spades if we choose an outcome that is unanimously preferred over its alternative. Certainly it seems eminently sensible that this should be the case. Indeed, it seems hard to imagine that a unanimously preferred outcome could lose fair and square to a choice no one likes as much. But it turns out it can. We can pick a result fair and square that harms everyone's interests. We can choose a policy that is unanimously thought to be inferior to the winning option.

Returning to Congress, we can see an example of this problem. Let's

imagine that a congressional committee turns its attention to trade policy. The committee members get into a debate over whether to propose changing the existing law and if so, how. The committee is made up of members Pat, Chris, and Dana. Their discussions lead Dana to propose a new law to replace the existing policy. Chris then offers an amendment to Dana's suggestion. Pat, not happy with Dana or Chris's proposals, in turn offers an amendment to Chris's amendment. The committee's procedure is to vote on the amendment to the amendment (Pat's proposal) compared to the amendment first (Chris's idea). Whichever of those wins is then voted on against the proposed change to the existing law (Dana's initial proposal). Finally, whichever wins that contest is then voted up or down, with a down vote meaning that the status quo—that is, the existing policy persists and an up vote meaning that whatever survived to this step (the amendment to the amendment, the amendment, or the proposed new law)—is adopted as the law of the land. This is, in fact, the voting procedure followed in Congress.

Dana proposes a free trade policy (denoted as F). This policy would remove all tariffs. Tariffs, as mentioned briefly in our earlier discussion, essentially act like a tax on imported goods, making them cost more than comparable domestically produced goods. Many economists, as we will learn in [chapter 10](#), believe that free trade policies are best for stimulating economic growth, but they hurt some domestic producers while benefiting consumers. Chris is not enthusiastic about Dana's proposal. Chris sees merit in some expansion of free trade to specific countries, granting them, for instance, what is known as most favored nation status. But Chris is against granting free trade across the board, arguing that there is no reason to allow a country to export to the United States without paying a tariff if that country does not allow goods made in the United States to enter their market without tariffs or other price-raising impediments. This, indeed, is a common argument made by members of Congress who represent districts that rely significantly on manufacturing. Chris proposes an amendment to limit the extension of free trade to country-specific bilateral agreements. I will label this proposal B . Pat is not especially happy with either Chris's or Dana's proposal. Pat believes that American workers and American jobs should be protected from all overseas competition. Pat, therefore, offers an amendment to Chris's amendment. Pat proposes that there should be no free trade relationships. Instead, Pat's amendment to Chris's amendment calls for Congress to adopt a protectionist trade policy that we will refer to as P . Pat

wants the tariffs to be large enough so that when foreign-made goods are imported into the United States they are more expensive than comparable domestically produced goods. In this way, domestic producers are protected against foreign competition, while consumers are made to pay a higher price than otherwise would be necessary to buy what they want.

If the voting procedure chooses none of these three proposals (F , B , or P) then the status quo trade policy, which is a hodgepodge of tariffs, **nontariff barriers** (such as health standards that limit the importation of certain food products from Europe and elsewhere), and a smattering of bilateral free trade agreements will persist. This outcome is labeled S . We know Pat, Chris, and Dana's first choice on trade policy but to work out what will win under the Congress's amendment procedure we must also know their second, third, and fourth place preferences. Let's assume that the following are their preferences:

Pat:	$P > B > S > F$
Chris:	$B > S > F > P$
Dana:	$F > P > B > S$

The congressional procedure calls for first considering P versus B . P wins (Pat and Dana prefer **protectionism** to bilateral trade agreements). P , the amendment to the amendment has defeated the amendment and so is now voted on against F , the proposed free trade bill. Chris and Dana vote for F over P , so F prevails. Now all that remains is for Congress, represented here by Pat, Chris, and Dana, to vote for F or against F . If they vote against F then S continues as the law of the land. Pat and Chris like the existing trade policy S better than the proposed change to F and so S , the status quo, remains the US trade policy. But wait a minute, check out the preference orderings. Pat, Chris, and Dana *unanimously* prefer the bilateral free trade arrangements proposed by Chris (B) over the existing hodgepodge status quo policy. That is, in violation of the principle that it is desirable to pick Pareto improving outcomes, Congress chose S over B even though B is unanimously preferred to S . Keeping S as the policy is certainly **Pareto inferior** to B . Everyone is worse off with S than with B . That surely cannot be in the general interest or a fair outcome, but it is the outcome that is consistent with the rules employed by the US Congress for adding up individual voter—Congress members—choices.

Independence of Irrelevant Alternatives

So far, we have agreed that people should be free to hold any opinion about a policy matter that they like; that is, society should not prohibit any of us from preferring x to y or y to x or being indifferent between the two. With society open to any individual preferences, we then thought that majority rule might be a good way to translate each individual's wants into a socially representative policy choice, but we found that majority rule does not provide an assured way to choose a socially desired policy when, for instance, the aggregated preferences are intransitive, a condition that becomes increasingly likely as the number of alternatives or the number of choosers increases (Niemi and Weisberg 2001). That tosses majority rule out the window as a way to work out the national interest without a hitch. Seeing the problem, we tried something more demanding: unanimity. Shockingly, we found that even with unanimity we cannot be confident that the political or social rule for adding up preferences guarantees that policy reflects what "we the people" want and that is without even thinking about how hard it is to get unanimity on any policy question in the first place. After all, even the vote to declare war on Japan on December 8, 1941 (the day after they attacked Pearl Harbor), was not unanimous.

As if things aren't looking bad enough, we must also recognize another pathology that can creep in as we try to figure out what the national interest is by using open, transparent rules. This final pathology relates to the desire to have a rule whose social choice is unaffected by the introduction of an irrelevant alternative. We want the outcome to be independent of irrelevant alternatives (or IIA for short) since those alternatives are, after all, irrelevant!

What we have in mind here is that if our rule for adding up preferences reveals that some choice x is socially preferred to some other choice y , that conclusion ought not to be changed by introducing some alternative z . That is, if society likes x better than y , we expect that society will still like x better than y even if we also consider z . Notice we are not making a statement about society's preference for z over x or y . Of course, society might like z better than x and better than y , but it makes no sense for our social choice rule to tell us that society picks x over y if we do not talk about z but that society somehow picks y over x if we do talk about z . As you surely have guessed by now, this too turns out to be a problem. There are lots of rules that are sensitive to the introduction of an irrelevant alternative—that is, an alternative that is not chosen but nevertheless changes what is selected. And

you can certainly imagine how a minority in favor of y would want to throw z into the mix if that means y will then beat x .

To illustrate the IIA problem, let's reflect on the Cuban missile crisis of 1962. In September of that year, at the height of the Cold War, President John Kennedy was informed that US U-2 spy planes had discovered that the Soviet Union was placing strategic nuclear missiles on Cuba. This was in direct violation of public and private assurances from the Soviet leadership that they would never place anything other than defensive weapons on Cuba. President Kennedy appointed the Executive Committee of the National Security Council (known as ExComm) to consider how the US government should respond to the Soviet Union's provocative action. For purposes of this discussion, we need not delve deeply into the issues behind the crisis. We will do so later. For now, suffice it to say that the world has never come closer to nuclear war. If ever there was a time when a policy "in the national interest" was called for, the Cuban missile crisis was that time.

The members of ExComm understood the gravity of the situation. They realized that they needed to come to a quick decision on how best to respond. Delay could have meant disaster. Once the missile sites were operational, the risks of nuclear war in the event of a military confrontation would have potentially risen tremendously. They also understood that the president's credibility was on the line. He had trusted Soviet Premier Nikita Khrushchev's assurances that the Soviet government would never place offensive weapons on Cuban soil. Therefore, President Kennedy had openly and publicly declared that the United States would not and could not tolerate such weapons on Cuba although the United States could live with defensive weapons on that island. Now, contrary to his expectations, he faced the reality that the Soviet leadership had lied to him. President Kennedy, in the speech he delivered to the nation on October 22, 1962, said the following:

I quote the Soviet Government, "there is no need for the Soviet Government to shift its weapons for a retaliatory blow to any other country, for instance Cuba," and that, and I quote their government, "the Soviet Union has so powerful rockets to carry these nuclear warheads that there is no need to search for sites for them beyond the boundaries of the Soviet Union." That statement was false.⁴

Clearly the president pulled no punches, and the ExComm knew he couldn't easily back down having publicly declared his commitment not to

allow such weapons so close to the United States.

Let's divide the committee, fairly accurately, into four key members (or factions if you prefer), and for the sake of argument, let us assume each faction was equally weighty in the committee's deliberations. Secretary of Defense Robert McNamara favored a naval blockade to prevent ships from bringing additional missile supplies and nuclear warheads to Cuba. So did Attorney General Robert Kennedy (who was also President Kennedy's brother and most trusted confidante). The military was represented by Gen. Maxwell Taylor, the chairman of the Joint Chiefs of Staff. His favored response was an air strike to take out the missile installations. President Kennedy's national security adviser, McGeorge Bundy, also initially supported an air strike. Although we cannot be sure of their full preferences, let's consider their inferred preferences over three options that were actively discussed: (1) Blockade (*B*), (2) Air Strike (*A*), and (3) an invasion of Cuba (*I*). Then we will expand the discussion to include the possibility of just pursuing a diplomatic solution through the United Nations (*D*). This fourth possibility (*D*) will be shown to be an irrelevant alternative that induces a reversal in ExComm's choice. I shall assume the following preferences over *B*, *A*, and *I*:

1. McNamara: $B > A > I$
2. R. Kennedy: $B > A > I$
3. Taylor: $A > I > B$
4. Bundy: $A > B > I$

Because the decision they faced was so momentous, let us assume that the committee was eager to give weight to the full array of preferences for each faction on the committee (remembering that some of these factions had other members as well, although we will not use that information here). Thus, we will assume that they chose to evaluate the ExComm's policy preference—meant to be in the national interest—using a vote aggregation method called the Borda Count, a method that is commonly used in committees. The Borda Count allows each voter to express their order of preference by assigning $N - 1$ points to that person's first place choice where N is the number of choices. Then, second choice is given $N - 2$ points, third place $N - 3$, and so on with zero points assigned to last choice. For instance, if the committee is voting on three alternatives (such as *B*, *A*, and *I*), then any voter gives two points to his

or her first-place choice ($N = 3$ so first place gets $N - 1 = 2$ points), one point to his or her second place choice, and zero points to that voter's least preferred option.

Using the Borda method, we can see that B gets a total of five points, A receives six, and the invasion (option *I*) garners just one. Taking complete preferences into account, we conclude, therefore, that the air strike is the preferred option. This, however, was not ExComm's recommendation. They chose to recommend the blockade (*B*). Imagine that as the members of the committee debated an invasion, a blockade and an air strike that one member, let us say McGeorge Bundy, suggested that maybe the right response given the risks was to do no more than pursue a diplomatic solution through the United Nations where Ambassador Adlai Stevenson, twice the Democratic Party's presidential candidate (1952 and 1956) might carry great weight. After all, a naval blockade meant boarding ships at sea, which under **international law** could be seen as an act of war. An air strike and an invasion were also clearly acts of war and could prompt horrific consequences.

With the diplomatic approach, D, on the table, preferences (by inference) looked as follows (holding the preferences for B, A, and I constant and just adding D):

1. McNamara: $B > D > A > I$
2. R. Kennedy: $B > D > A > I$
3. Taylor: $A > I > B > D$
4. Bundy: $D > A > B > I$

First place votes now get three points ($N - 1$ with $N = 4$), second place two, and so forth. The blockade option receives three votes from the McNamara faction and from the Kennedy faction and one vote each from General Taylor and McGeorge Bundy for a total of eight votes. The air strike receives a total of seven votes as does the diplomatic option. The idea of an invasion gets only two votes. So, looking at the group's aggregated preferences, the ExComm selects the blockade over the air strike when a diplomatic response is added to the mix. Without the addition of the diplomatic option, the irrelevant alternative, they chose to recommend the air strike. The introduction of the diplomatic option has reversed the choice between A and B. Indeed, if McGeorge Bundy's preference for the diplomatic

option were in third place then we would not even have a tie for second place. Under those conditions, holding all other preferences as given, the blockade gets nine votes, the air strike eight, the diplomatic option five, and an invasion just two. The irrelevant alternative has changed ExComm's expressed preference between an air strike and a blockade. Taking weighted preferences into account to reflect second, third and so forth choices has left us vulnerable to irrelevant alternatives.

Lest anyone think that such a reversal is true only in theory and not in practice just think about the 2000 presidential election. Without Ralph Nader's third-party candidacy, it seems that Al Gore would have been elected president not only by the popular vote (as he was) but also by the Electoral College. With Nader in the mix, George W. Bush was elected president. He won more Electoral College votes than Gore because Nader's voters apparently tipped Florida into the Bush column by depriving Gore of votes he otherwise would have received. Virtually none of the Nader voters preferred Bush to Nader. Nader was an irrelevant alternative in terms of electability, but the voting rules were not immune from being influenced by an irrelevant alternative.

Now we are truly in a quandary. It seems very hard to come up with a general rule for aggregating preferences that assures us that the social choice resulting from that rule fairly reflects what "We the People" want. In fact, what Arrow proved, which has only been illustrated here, is that there is exactly one and only one rule that guarantees that the social outcome accurately reflects individual preferences. That one and only rule is dictatorship; that is, if there is an absolute dictator so that only her preferences count (as in the quotation from Drake with which we began) then, sure enough, she will readily choose what she wants as long as she has complete and transitive preferences and acts on them (i.e., she is rational). That is a very disheartening conclusion but there it is; it is a cold, hard truth. If we agree that fairness in a social choice rule—a means of turning individual preferences into a social choice, a policy—requires universal domain, socially transitive preferences, respect for unanimity (Pareto improvement), and independence of irrelevant alternatives then there is no way to add up more than one person's preferences and still *guarantee* a happy correspondence between what the choosers want and what they get. All politics, in short, are susceptible to fair manipulation, not to mention corrupt manipulation. Knowing that, all politicians naturally try to manipulate

the way preferences are translated into outcomes so that the outcome is favorable for them. But even if they didn't, Arrow has shown us that outside of dictatorship we can never be certain that our rules for adding up what people want actually reflects what they want.

Once we accept that whatever rules we adopt to identify the national interest can never with certainty be said to fairly and truly reflect what the people want, we are compelled to pay attention to how domestic politics shapes policy choices. The view of states as rational unitary actors is problematic because that view, in essence, assumes that the state either dictates policy or that somehow researchers can know what the state wants. This book questions that perspective and adopts, in its place, a strategic orientation that emphasizes how domestic institutions and political divisions give shape to all decisions including the lowliest and the most momentous. As I explain in [chapter 1](#), all theories must make simplifying assumptions, so the rational, unitary actor assumption may be perfectly sensible for many situations. That means you should be attentive to whether claims made in each chapter that are supported by evidence could be true if we stuck to the simplification implied by treating states as unitary actors devoid of domestic politics. This issue will be especially revealing when we examine how different forms of government—democratic, autocratic, monarchic, etc.—seem to choose differently in matters of war, peace, and world order.

THIS BOOK AND IMPORTANT ALTERNATIVE POINTS OF VIEW

Because so much that follows differs from standard accounts of international affairs, I pause here to introduce the central themes of the three most important alternatives to the **strategic perspective**: (1) neorealism, (2) **liberalism**, and (3) **constructivism**. I also highlight the main ideas behind the strategic perspective used here. Each of these approaches will come up from time to time, so it is important to understand their essential features.

Neorealism

Kenneth Waltz (1979) introduced neorealism as a way to make sense of international politics in a world that has no overarching authority to enforce rules, norms, or laws. Neorealism makes four core assumptions:

1. International politics is **anarchic**. That is, there is no supranational authority that can enforce agreements between states so that only **self-interest** can.
2. States, as rational unitary entities, are the central actors in international politics.
3. States seek to maximize their security above all else; they consider other factors only after security is assured.
4. States seek to increase their power so long as doing so does not place their security at risk.

These assumptions establish neorealism's view that what happens inside states—that is, domestic politics—is irrelevant to the fundamentals of international affairs. Of course, neorealists understand that this is a simplification of reality but one that they believe represents a useful trade-off between **parsimony** and accuracy. In essence, they accept the notion of the state as a dictator so that the state's interests, whatever they may be, are treated as the “national interest.”

Neorealism's most important innovation is to suggest that nations are interested in maximizing their security rather than maximizing their power. The focus on security implies that nations are concerned with relative gains in their competition with other states (Grieco 1988a, 1988b; Powell 1991; Snidal 1991). According to the neorealist perspective, it does a nation no good to gain new resources if, in the process, others gain even more, leaving the first nation relatively worse off. Waltz explains the emphasis on relative gains as follows:

When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided. They are compelled to ask not “Will both of us gain?” but “Who will gain more?” If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other. Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities. (1979, 105)

The neorealist perspective sees the world as naturally in a state of war, a condition that is avoided only by the skillful pursuit of national security by each and every nation. It gives scant attention to the prospect that states (or governments) can sustain long-term cooperation with one another. It suggests a world devoid of anyone who can be trusted to protect a state's security interests except the state itself. That is why neorealists view international politics as a self-help system. Alliances, international organizations, and all other means of cooperation between states are (usually short-term) conveniences for states to protect and enhance their own security. They will break from such arrangements at the drop of a hat if doing so will improve their security. From this perspective, neorealism makes three key claims about international politics:

1. A **balance of power** between states is stabilizing, and an imbalance is destabilizing, leading to war or other means by which security may be altered. Having a **probability** of victory in war that is greater than 0.50 is a necessary, although not a sufficient, condition for war in neorealist logic (Niou et al 1989; Bueno de Mesquita and Lalman 1992), providing the foundation for the expectation that imbalance, or mutual optimism (i.e., when both sides to a dispute think their chance of victory is greater than 0.50) are precursors to war (Blainey 1988; but see Fey and Ramsay 2007).
2. A **bipolar** international system, in which just about all states are associated with either of two blocs of states, each led by a dominant power, contains little **uncertainty** about how states will align in the event of war. Therefore, a bipolar international system is more predictable and hence more secure and more stable than a multipolar system. When there are more than two poles, or blocs, then the international system is filled with uncertainty. Uncertainty about the actions of others makes states more likely to miscalculate, misjudge, and misperceive their situation (Waltz 1964, 1979; Deutsch and Singer 1964).
3. **Alliances** are short lived, and trade relations must be carefully balanced or else they can result in asymmetric gains that can jeopardize the security of the state getting the short end of the stick (Gowa 1989, 1994; Gowa and Mansfield 1993, but see Morrow, Siverson and Tabares,

1998).

There are, of course, other implications from neorealism's assumptions, but these are the main themes. As we will see in [chapters 5 and 6](#), the record of history does not support neorealism's expectations regarding any of these hypotheses.

Liberalism

Liberal theories emerged as a counterweight to the neorealist perspective. Unlike realist approaches, liberalism draws attention to the frequent and often long-standing occurrences of international cooperation. Indeed, a desire to explain such cooperation is its first point of departure from neorealism. Furthermore, for liberal theories, structural [hierarchy](#) is the central organizing principle of international politics. Structural hierarchy implies the presence of an actor that can authoritatively enforce agreements between states rather than anarchy—a system in which states must be able to help themselves because they cannot count on anyone else. The presence of a [hegemonic](#) state (an overwhelmingly dominant power) is argued to help enforce norms of conduct, maintain regimes and international peace and [stability](#) (Organski 1958; Keohane and Nye 1977; Gilpin 1981). Because liberal theories emphasize cooperation, they are interested in everyone's chance and hope for absolute gains rather than relative gains.

Norms play a central role in liberal and neoliberal thought. Norms are broadly respected patterns of conduct. For example, most nations most of the time respect the territorial boundaries of their neighbors. They do so, according to liberal theorists (and constructivists too, as explained next), because this is an accepted mode of conduct. Thus, even though territorial integrity cannot be enforced easily as a matter of law, it is generally enforced as a matter of shared values, or norms. These shared values and norms are the counterpoint to neorealist claims that anarchy, rather than hierarchy, is the central organizing principle of international politics. Regimes, in the liberal or neoliberal view, are sets of international laws, rules, and organizations designed to promote [coordination](#) among nations with shared interests (Krasner 1983; Organski 1958). Norms and regimes combine to provide the behavioral basis by which the international system's hierarchical structure promotes cooperation and supports the assumed natural inclination of nations

to maximize their wealth.

Robert Keohane and Joseph Nye's (1977) theory of interdependence is the most prominent liberal theory. It draws attention to the international political economy rather than focusing exclusively on problems related to security. Liberalism and neorealism quite naturally focus on different **variables**. For liberalism, power distributions are not as important as distributions of shared interests produced, for instance, by trade regimes or cultural norms. Trade regimes are agreements and relevant institutions or organizations designed to regulate and enforce specific trade policies. Their function is to promote cooperation among participants and, in fact, they are often successful in doing so regardless of asymmetries in relative gains or in relative power.

Cultural norms, or shared values, may also promote cooperation by making clear what sorts of behavior are unacceptable and open to punishment. Of course, the logical feasibility of punishment for violating norms or regime expectations depends on the reliability of the assumption that the international system is hierarchical rather than anarchic. Theories that share the liberal perspective are likely to treat international law as a serious constraint on national action even when the law is contrary to a nation's short-term self-interest. Theories, like neorealism, that subscribe to anarchy are more likely to view international law as a convenience when it works to enhance a state's security and as a nuisance to be ignored when it doesn't. Thus, neoliberal perspectives take a broader, longer-term strategic view of state behavior than does neorealism in which state interactions are more influenced by their short-term consequences.

Constructivism

Neorealism and liberalism assume state objectives and believe that state interactions are strategic and therefore amenable to game theoretic analysis. In the former case, security is the assumed objective; in the latter case, it is wealth and cooperation. Constructivism, in contrast, is a theoretical perspective that focuses on explaining how certain types of objectives come into being or change. Constructivism introduces a natural connection between domestic culture, the domestic power hierarchy, and personal values or preferences, but except under limited conditions, it does not regard action in the international arena as strategic.

Constructivism aims to theorize about the formation of identity—that is, how we see ourselves (Keck and Sikkink 1998; Risse-Kappen, Ropp, and Sikkink 1999; Wendt 1999). For constructivists, individual preferences and identity are formed or altered by three processes: (1) **legitimation**, (2) **role redefinition**, and (3) **reflection**.

To see how constructivist logic works, let's consider the enforcement of human rights, a topic we explore in greater depth in [chapter 9](#). A nation's leaders might agree to an international treaty on human rights even though they routinely violate the human rights of their subjects (Cherif 2010). By doing so, constructivists hypothesize that the leadership seeks to legitimate itself in the eyes of the international community. Thus, this early stage and only this early stage is thought by constructivists to be strategically motivated. Constructivists go on to argue that as these leaders engage in the rhetorical endorsement of human rights, they may find themselves under international pressure to participate in the shared norms of conduct implied by the treaty they ratified (Risse-Kappen et al. 1999). Eventually, faced with a contradiction between their own **rhetoric** and behavior and confronted with international pressure to abide by the norm of conduct to which they give rhetorical support, the leaders become persuaded to change their behavior and respect the norm of conduct to which they agreed. That is, they engage in role redefinition and reflection, resulting in the internalization of the rules and norms that they originally subscribed to merely to escape criticism.

Thus, we see that constructivism does not view decision makers as primarily strategic. Rather, leaders are thought initially to adopt a course of action for strategic reasons—to obtain legitimacy—but then to become caught up in socially accepted norms of conduct, reinforced by external pressure and persuasion until they have altered their own sense of self and their own subjective view of their interests. They become socialized to a new way of behaving even if the changed behavior jeopardizes their own political welfare.

Unfortunately, much of the empirical research to evaluate this theory's conjectures is poorly designed to do so. Thus far, constructivists have tended to select cases based on prior knowledge of how the **dependent variable**—the thing to be explained—turned out rather than drawing cases at random to see whether their **independent variables**—related to norms, pressure, and persuasion—tend to produce systematically the predicted effect (i.e., altered international values and improved behavior). Such research designs, as

explained in [chapter 1](#), tend unintentionally to contain a bias against contradicting their theoretical claims.

Efforts to evaluate constructivism in a manner more consistent with the **scientific method** have generally not found much support for constructivist hypotheses. For that matter, common sense forces us to question some rather optimistic constructivist expectations. The UN International Covenant on Civil and Political Rights, for instance, commits the parties to it to respect a host of human rights, including the right to life, freedom of religion, freedom of speech, freedom of assembly, and due process. Approved in December 1966, the treaty has been in force since 1976. Almost all governments are parties to this treaty, including, for instance, Belarus (ratified in 1973), China (signed in 1998), the Democratic People's Republic of Korea (DPRK, or North Korea, ratified in 1981), the Islamic Republic of Iran (ratified 1975), Syria (ratified 1969), and Zimbabwe (ratified 1991). None of these countries in fact respect the rights they agreed to although they have accepted the treaty's terms and conditions for two to four decades. Apparently they, and many, many others, have yet to move beyond the legitimation stage despite the passage of very long periods of time and turnover in leaders.

Looking systematically at behavior, Thomas König (2007) has investigated the legislative decision-making process within the European Union with the specific intent of comparing the quite different empirical expectations from constructivist theory and a form of rational actor models called **spatial models** (see [chapter 3](#)). The study focuses on the constructivist expectation of convergent policy positions among member states of the European Union and the spatial modeling expectation of divergent policy positions over time. The study is important not only for its test of constructivist **hypotheses** but also because the empirical results carry important implications about the EU legislative expectations as its membership expands. König reports that “against the constructivist claims, neither the explorative nor the statistical analysis detects convergent effects of Member State positions” (2007, 419). The newspaper headlines throughout the EU euro crisis reinforce König's basic message that the member states are not converging in their views or actions on fundamental policy questions that may influence the very survival of the European Union.

While König's large-sample statistical analysis contradicts constructivist expectations, it is noteworthy that constructivists successfully identify **case studies** that support convergence. Checkel (2003), for instance, reported case

analyses that support policy convergence among member state representatives. König (2007) attributes this to **selection effects** that reflect unintentional anti-falsification bias. Similarly, Feryal Cherif (2010), contrary to constructivist expectations, finds little evidence that human rights behavior in authoritarian regimes improves over time in response to signing international treaties and being subjected to international pressure that obliges the member states to adhere to specific rules of conduct with regard to women's rights. Constructivists generally argue that the metamorphosis of preferences and behaviors takes time, as external pressure and personal redefinition gradually take hold. But Cherif's study—which surveys a fifteen-year period—shows that this has not proven to be true, at least with regard to women's political participation.

We might even just examine the events of the Arab Spring and notice that dictators like Egypt's Hosni Mubarak or Syria's Bashar al-Assad did not step down peacefully in the face of mass protests and demands for democracy. Mubarak and Assad had long promised such reforms, and both were participants in the human rights treaty mentioned earlier. Constructivism notwithstanding, neither seems to have moved on from the legitimation stage to role redefinition or reflection despite years—even decades—of opportunity in Mubarak's case to do so. No less we might note that Fidel Castro, despite promising democratic elections and facing international pressure to hold such elections for nearly fifty years never got around to allowing competitive parties. Whatever legitimacy he hoped to gain from proclaiming his support for elections when he first came to power never translated into concrete action.



Egyptians celebrate after President Hosni Mubarak resigned and handed power to the military in Cairo in February 2011. Cries of “Egypt is free” rang out, and fireworks lit up the sky as hundreds of thousands danced, wept, and prayed in joyful pandemonium after eighteen days of peaceful prodemocracy protests forced Mubarak to surrender power to the military. Whether this was the end of three decades of authoritarian rule remains uncertain.

Although several empirical studies raise questions about the accuracy of the constructivist account, there is still too little systematic research to reach a firm conclusion, so constructivism remains a troubled but still plausible alternative (or complementary) explanation of at least some facets of international affairs, especially in the domain of international law and international organizations. Therefore, we return to a consideration of constructivism when we take up these topics in section III.

A First Look at the Strategic Perspective

Like the constructivist viewpoint and unlike neorealism or liberalism, the strategic perspective is firmly rooted in the interplay between domestic and international interests and influence. Unlike the constructivist approach, however, the strategic perspective assumes all parties to international affairs are strategic, hence the name of the perspective. By strategic I mean that each decision maker and each individual or group trying to influence decisions looks ahead, contemplating what the likely responses are if they choose this action or that action. Then they choose the action that they believe, based on looking ahead and working back to the current situation, will give them the best result. In other words, everyone in the strategic perspective is a chess player in a very complicated, many-sided, many-player chess game.

Three principles guide the strategic perspective and its specific application, the **selectorate theory**, on which we will focus much of our attention. The three core principles are as follows:

1. The actions that leaders take to influence events in the international arena are motivated by their personal welfare and, especially, by a desire to stay in office. Leaders define the national interest to coincide with their personal interests.
2. International relations cannot be separated from domestic politics. Every foreign policy action is undertaken in the shadow of the domestic

political consequences the action is expected to produce. Therefore, if a foreign policy is expected to achieve beneficial consequences for a nation in the long term but in the short term will result in the ouster of the leader, then that policy will not be pursued.

3. Relations between nations and between leaders are driven by strategic considerations.

As such, foreign policy decisions are designed to influence international affairs and the leader's well-being. To be effective in this, foreign policies must be chosen with an eye toward the reaction they will create among friends and adversaries. The reaction expected from a policy choice is compared with the reaction anticipated from other policy options. Leaders pick the policy they believe will produce the best outcome for them, knowing that, at the same time, domestic and foreign rivals are choosing policies to enhance their own well-being.

These three principles indicate that international affairs are best understood through the use of game theory. Game theory is a means to evaluate strategic interactions in which the choices of any individual are contingent on expectations about the choices of other individuals or groups. When used rigorously, rather than just metaphorically, it provides an explicit, logically consistent, straightforward way to understand how people make choices, knowing that they must anticipate as best as they can how others will react and knowing also that others are trying to anticipate everyone else's actions.

The first principle of this book draws attention to leaders; leadership; and domestic social, political, and economic circumstances. The most important aspect of international affairs is the way in which national leaders translate their self-interest into foreign policy decisions and actions. The focus on leadership forces us to think about why seemingly successful and effective leaders get turned out of office, whereas some manifestly terrible leaders keep their jobs for a very long time. Take, for example, Winston Churchill. As Britain's prime minister during World War II, he sustained Britain as one of the last bastions of democracy in Europe during the darkest days of the war before ultimately guiding it to a valiant victory against Nazi Germany. Yet, in the final days of the war, the British electorate voted Churchill out of office. In contrast, such dictators as Nursultan Abishuly Nazarbayev in Kazakhstan, Fidel Castro in Cuba, Robert Mugabe in Zimbabwe, and the late

Muammar Qaddafi in Libya, and countless others past and present manage to remain in office for decades as they impoverish and even murder many of their citizens. Even defeat in war, it seems, is not sufficient reason to overthrow some dictators (Bueno de Mesquita et al. 2003; Chiozza and Goemans 2004). This certainly is a puzzle that raises questions about leadership, morality, and the motives behind foreign policy.

The second principle also deviates from current thinking about international affairs. The dominant view today tends to see international politics as shaped by structural elements that define the international system; that is, the pattern of interactions among all states that are determined by factors such as how balanced or skewed the **distribution** of power is. Those nations endowed with great wealth and weaponry are thought by many to shape international affairs for all by influencing who does what to whom and when. Henry Kissinger, President Richard Nixon's noted national security adviser and later his and President Gerald Ford's secretary of state, for example, argues the following:

History so far has shown us only two roads to international stability: domination or equilibrium. We do not have the resources for domination, nor is such a course compatible with our values. So we are brought back to a concept maligned in much of America's intellectual history—the balance of power. (Kissinger 1992, 239)

What Kissinger means by the “balance of power” or “domination” comes down to his understanding of what makes some nations more influential than others:

Throughout history the political influence of nations has been roughly correlative to their military power. While states might differ in their moral worth and prestige of their institutions, diplomatic skill could augment but never substitute for military strength. In the final reckoning weakness has invariably tempted aggression and impotence brings abdication of policy in its train.... The balance of power ... has in fact been the precondition of peace. (1979, 195)

This is why people speak of superpowers, such as the United States today, as imposing their will on weak states. Those who are less well endowed allegedly must simply go along. They have no choice. Yet, contrary

to this view, in 1776 when the American colonies were seemingly weak and the United Kingdom was the greatest power in the world, it was the colonies that prevailed in the American Revolution against Britain. Two centuries later, when Vietnam was weak and the United States was one of two superpowers, it was Vietnam that prevailed and not the United States. Today, despite billions of US dollars spent on efforts to secure a democratic government in Afghanistan, that government remains as corrupt as ever, is becoming increasingly friendly to Iran, and is unable to defeat its religious fundamentalist Taliban foes. As these examples illustrate, it is not always true—and perhaps not even generally true—that “weakness has invariably tempted aggression and impotence brings abdication of policy in its train.” The strategic perspective does not give much credit to power by itself as a determinant of outcomes in international affairs. Instead, it weights power and motivations together to evaluate foreign policy choices and their expected results.

The third governing principle views the unfolding of international relations as a function of reasoned decision making. The perspectives that have dominated thinking since the end of World War II—in particular, realism and liberalism and their variants—give little attention to individual choices. Consequently, these perspectives miss the essence of political maneuvering that seems to me to be at the heart of international affairs. The remainder of this book is an exploration of the strengths and weaknesses of contending perspectives and especially the strategic approach.

THE BOOK'S PLAN

With the existence of a national interest in doubt, unitary actor perspectives seem too limiting to explain the important aspects of international politics. The rest of this book is organized around the notion that domestic politics are crucial to international affairs. [Chapter 1](#) introduces the principles that guide how to evaluate arguments and evidence about international affairs in a rigorous, scientific way. [Chapter 2](#) introduces five simple rules that seem to control almost everything that goes on in the political world. Any leader who succeeds in following those five rules is likely to govern for a very long time. Any leader who succeeds in following those rules, however, may not govern especially well if by “well” we mean advancing her subjects peace and prosperity. Therein lays the fundamental rub in international affairs. Doing

what benefits many people may be exactly the worst thing a power-hungry leader—and pretty much all leaders are power hungry—can do.

This leader-oriented view alters how we understand and explain international affairs. Until about three decades ago and still for many today, international relations were thought to be just about states and their actions. States were, and for many—maybe even most—still are viewed as the central players in international politics. Unfortunately, all the attention given to states has produced considerable confusion, some very bad policy choices, and tons of misconceptions. This book is not about states although their names crop up from time to time and sometimes I slip into the easy language of saying “the United States wants ...” or “China believes ...” when I mean to name specific decision makers or interest groups in the United States, China, or wherever. This book is about what motivates the foreign policy decisions that leaders make and how those decisions shape war, peace, and world order. You may be surprised to find out that what happens in international affairs and why it happens has very little to do with the sacred cows of international relations thinking. The balance of power is much less important than most people think. Whether the world is bipolar, unipolar, or multipolar is of hardly any consequence. What matters is leaders trying to cling to their jobs and trying to exercise as much discretion over the use of government revenue as possible. Once we look at international relations through the eyes of leaders eager to survive politically, pretty much everything will fall into place. We will understand why some nations are stable and some are in tumult, why some people live lives of misery and others of pleasure, and why some states are aggressive and others are content to live within their own borders and their own means.

After introducing the strategic perspective in [chapter 2](#), I go on in [chapters 3](#) and [4](#) to introduce the analytic tools necessary to formulate careful arguments about what happens in the strategic interplay that defines international affairs. [Chapter 3](#) focuses on how people’s preferences and power may provide a means to predict foreign policy action if we impose some restrictions on the idea of universal domain. In [Chapter 3](#), this is done without yet attending to strategizing about what others may do in response to actions chosen by this or that leader. [Chapter 4](#) expands our tool set to introduce game theory. Game theory provides the means to analyze the actions leaders, and their governments are expected to take when they factor in the expected responses of friends and adversaries alike. Thus, [chapter 4](#) is

concerned with government leaders as chess players in a sometimes very complicated match involving many players instead of just one other. Here we will learn that the Rolling Stones were right: you can't always get what you want, but if you try, you may find you get what you need.

With our tool set in hand, [chapter 5](#) turns our attention to war with a broad overview of the circumstances that are required for war to happen and some reasons why those circumstances seem to arise less and less often. [Chapter 6](#) burrows more deeply into the causes and consequences of war by looking closely at how domestic political differences shape decisions to wage war. Here we will see how profoundly domestic political institutions influence how effectively democratic or authoritarian regimes can bluff about carrying out foreign threats and how hard different types of governments work at winning a war and enforcing the post-war peace.

With [chapter 6](#) completed, we are ready to turn our attention to peace. In this third section of the book, we explore the effectiveness of international law and global and regional security arrangements, such as international organizations like the United Nations, as means to promote peace and norms of cooperation. While [chapter 7](#) makes the transition from war to peace-enforcing institutions, [chapter 8](#) zooms in on the application of the principles of international organizations to examine strategies to curb global warming. It asks why they have thus far not provided satisfactory solutions. It also suggests, by way of a US-Brazil example, how real progress toward controlling greenhouse gas emissions might be achieved. [Chapter 9](#) builds on what we learned about international organizations to explore the strengths and failings of international law with a specific focus on the enforcement of human rights and the treaties that allegedly guarantee these rights. [Chapters 10 and 11](#) then turn our attention to trade. [Chapter 10](#) investigates the domestic politics behind trade policy. [Chapter 11](#) parallels [chapter 10](#) by investigating the global political economy of trade through an investigation of the economics and politics of **globalization**. The examination of globalization in [chapter 11](#) builds on the human right of freedom of movement discussed in [chapter 9](#) to understand currency policies and what happens when money and people are free to move about in a peaceful world. Finally, we zoom in on the issues behind world order in section IV. [Chapter 12](#) is concerned with political and economic development—especially in the context of foreign aid. It evaluates why foreign aid does not enjoy greater success at alleviating poverty and how it contributes to the suppression of

revolutionary movements such as we saw recently in the Middle East. [Chapter 13](#) looks at **terrorism**—in part as an unintended consequence of foreign aid policies. It investigates the rationality of terrorism and helps solve puzzles related to negotiation or the avoidance of negotiation with terrorist groups and factions. [Chapter 14](#) then focuses our attention on nation building through the spread of democracy. It helps us see how and why the spread of democracy exerts a pacifying influence that diminishes the risk of war. It also helps us see that despite this pacifying influence of **democratization**, democratic governments rarely have an incentive to help build democracy in foreign lands. These chapters are followed by a chapter-length history appendix. It is intended to provide a broad and sweeping overview of world history for the past approximately 600 years. The objective is to provide a baseline foundation in knowledge about important forces shaping and changing the international political arena.

WRAP-UP

Many of you would like to make the world a better place. In fact, I must admit to not yet having met a student who professes to desire the opposite: to make the world a more miserable place. I too want to make the world a better place. Some of you no doubt have ideas about how to improve the world (and so do I). You might, for instance, believe that the rich countries of the world could do much more to alleviate poverty and disease among poor people at home and abroad. You might think that corporations that outsource labor to places like India, China, Mexico, and Thailand to take advantage of relatively cheap labor are exploiting the poor workers in those countries. Instead of exploiting them perhaps corporations could do more to pay poor workers better; that may be the road to prosperity for all. You might think that your own government should do more to promote democracy, freedom, and human rights around the world instead of accommodating nasty petty dictators.

You might be right and you might be wrong, but one thing is for sure: by the end of this book, you will know what the balance of logic and evidence tells us about each of these ideas. You will know much more about how to think through what is likely to advance your desire for a better world and what is not. I believe that the best way to improve the world is first to understand why it works the way it does and then to work out how to make it

better in the face of reality's limitations. By the time you complete this book, you will have acquired the skills and insights that will allow you to explain why things occur as they do and to think about how to change the future course of events. This book is no mere exercise in ivory tower thinking. It is intended to help you improve the world as well as your understanding of it.

EXERCISES

1. How many possible ways are there to order three choices? How many are there with three choices and three decision makers? Can you work out how many of these are socially intransitive?
2. How does a quota on imports influence competition, producers of comparable products, and consumers of such products? If you were a foreign car manufacturer, for example, and you faced a limitation on how many automobiles you can export to the United States, what change might you make in your automobiles to protect profit in the face of the quota?

SUGGESTED READINGS

Most chapters provide citations to relevant literature in the text. In this chapter, I have avoided citations that might break the flow of the introductory material, so I offer a few suggested readings now. Readers who want to delve more deeply into any subject touched on in the chapters that follow would do well to start with the cited works that are listed in the Bibliography at the end of the book.

- On linkages between domestic politics and international relations, see the following: James Rosenau (1963, 1969); Robert Putnam (1988); Alex Mintz (1993); James Fearon (1994); Kenneth Schultz (1998); and Bruce Bueno de Mesquita et al. (2003).
- Early works on strategic interaction in international affairs include the following: Thomas Schelling (1960); Graham Allison (1972); Steven Brams (1985); and Robert Powell (1990).

- On foreign policy and leadership survival, see the following: Bruce Bueno de Mesquita and Randolph M. Siverson (1995); Suzanne Werner (1996); Hein Goemans (2000); and Bruce Bueno de Mesquita et al. (2003).

KEY TERMS

alliances

anarchic

assumptions

balance of power

beliefs

bipolar

case studies

civil liberties

compliance

constituents

constructivism

coordination

democratization

dependent variable

distribution

domestic politics

foreign aid

free trade

game theory

globalization

hegemonic

hierarchy

human rights

hypotheses

independent variables
international law
international organizations
international relations
legitimation
liberalism
nation building
national interest
national security
neorealism
nontariff barriers
norms
Pareto improvement
Pareto inferior
parsimony
politics
power
power transition theory
preferences
probability
protectionism
rationality
reflection
rhetoric
role redefinition
scientific method
selection effects
selectorate theory
self-interest
spatial models
stability
states

strategic perspective

tariffs

terrorism

theories

uncertainty

unitary actors

universal domain

variables

veto

Answers:

1. b. Of course, this fact is consistent with alliances being reliable. Aggressors are unlikely to attack when they believe the partner or partners of their target will help out, and so what we actually observe—that is, attacks—is a biased sample; the reliable alliances (and that is the vast majority) are not tested.
2. a. Protectionist trade policies increase employment within the industries being protected but decrease employment across the economy. People must pay more for the protected goods and so have less money with which to buy other things plus countries with targeted industries tend to retaliate by protecting their workers from American competition, costing still more jobs at home.
3. c. The equality or inequality of power between rivals is not significantly related to the likelihood that they live in peace or fight wars with each other. Indeed, over 40 percent of all wars in the past 200 years were started by a weaker state against a stronger adversary.
4. b. Universal or nearly universal agreements cater to the least committed. The way to get everyone to sign on to an agreement is to water it down enough so that it is not too costly for the most reluctant signatories. This is usually achieved by having few ways to monitor what signatories are doing and even fewer ways to punish violators. Creating weak agreements (like the 1997 Kyoto Protocol on greenhouse gases) results in high compliance because hardly anyone is asked to actually change their behavior. So you get high compliance but little impact on

greenhouse gas emissions.

5. b. Bilateral aid (and other forms of aid too) makes life worse for most people in poor countries. Very few benefit, those being mostly the rich, but the poor get little help and wind up suffering with a miserable government for longer than otherwise would have been the case. Aid helps dictators stay in power.

¹ See www.nytimes.com/2009/06/04/us/politics/04obama.text.html?pagewanted=all for the full text of President Obama's 2009 Cairo speech.

² Of course it is possible that a faction feels more strongly about one of the two policy dimensions than the other. If we drew an ellipse instead of a circle, so that we had two lengths for the radii instead of one, then we could capture the relative salience of the two dimensions of this policy decision.

³ I do not provide a formal proof of Arrow's theorem as that is a bit more demanding than is appropriate for this level of course, but you can find a proof online if you wish to explore it, or, of course, you can read his important 1951 book, *Social Choice and Individual Values* (New York: John Wiley). For a proof that there is a rational path from any point in any policy space that has more than one dimension and at least one more decision maker than there are dimensions, see McKelvey (1976, 1979) and Schofield (1978).

⁴ See www.americanrhetoric.com/speeches/jfkcubanmissilecrisis.html for the full text of his speech. There are many excellent audio and video versions of the speech available online. It is well worth listening to. See also Allison and Zelikow's (1999) *The Essence of Decision* for an account of the way the Cuban missile crisis unfolded. See also Robert Kennedy ([1969] 1999), *Thirteen Days*, for a firsthand, less analytic account.

1

Evaluating Arguments about International Politics



Iranian president Mahmoud Ahmadinejad (second right) gestures as he visits Iran's Fuel Manufacturing Plant (FMP), a new facility producing uranium fuel for a planned heavy-water nuclear reactor, just outside the city of Isfahan, 255 miles south of Tehran, Iran, on April 9, 2009. The United States has plans in place to attack Iran if necessary to prevent it from developing nuclear weapons. The question is, does Iran have such intentions? The observed facts so far are consistent both with their claim to want enriched uranium for peaceful purposes and with the fear that they may plan to develop nuclear weapons.

OVERVIEW

- Theories are important in helping us sort out which facts are

essential in understanding international affairs.

- Every theory should be susceptible to being falsified by evidence and should be evaluated in terms of its logical consistency.
- In keeping with the **first principle of wing walking**, a theory should not be abandoned before there is substantial evidence in favor of an alternative explanation.
- Logic and evidence, rather than personal tastes, are the key ingredients in assessing the merits of competing theories.
- The scientific method is the least subjective and most beneficial way of evaluating the merits of alternative explanations of the same phenomena.

Assumptions Check

1. Which is generally preferable for testing hypotheses?
 - a. difficult to explain cases
 - b. a random sample of cases
2. A single case study can falsify a hypothesis that predicts _____.
 - a. necessary conditions
 - b. sufficient conditions
 - c. probabilistic conditions
3. Which is better to test empirically?
 - a. the accuracy of assumptions
 - b. the logical implications of assumptions
4. To be useful, a theory should _____.
 - a. be as simple as possible relative to the quantity of things it explains
 - b. be as detailed as possible relative to the quantity of things it explains
 - c. be as nuanced as recounting of facts or history as possible

See end of chapter for answers.

The purpose of everything that follows in this book is to help you understand international politics. You might think that a review of the history of lots of past events and circumstances is the road to understanding. Certainly that is a commonly held view. Yet everything that follows is designed to help you recognize that understanding the past and, most importantly, the future is not embedded in the facts of history alone. Understanding what happens around us requires more than just knowing what is happening. Facts, after all, do not explain. Facts serve as evidence for explanations. That is one reason that learning about history is so important. History provides the flow of events that can serve as evidence for or against competing explanations. Explanations, however, are not strings of facts. Explanation requires theory—that is, assumptions, logical connections between the assumptions, and implications derived from those logical connections. This chapter is designed to establish some basic ground rules for judging competing explanations of events past, present, and future.

We start by noting that any theory is an explanation of some empirical phenomena. For example, we might construct a theory that proposes an explanation of conditions that lead to or prevent war, that encourage or discourage economic prosperity, that govern the motion of stars and planets, or that influence changes in the weather.

The fundamental components of any theory are the following:

1. assumptions
2. logic
3. predictions

The elements needed to evaluate a theory are as follows:

1. logical consistency among the theory's assumptions
2. evidence that matches or contradicts the theory's predictions
3. evidence that reveals whether alternative theories outperform or are outperformed by the theory being assessed

History provides a description of what has happened in the past, whereas theories provide prospective explanations of classes of events, whether from

the past or future. Theories are deductive. They consist of a set of assumptions that limits how we view reality. The assumptions can be fit together according to the rules of logic to derive predictions—also known as hypotheses—that represent the theory’s explanation of the portion of reality with which it is concerned.

All theories offer simplified representations of what we think of as the true state of the world. By making different assumptions, each theory simplifies in its own way what we know and believe. Theorizing is essential for policymakers; it is not just something pursued by academics. Policymakers must make decisions prospectively; they cannot make and implement policies with hindsight. When they act, they must do so on the basis of the information at hand and their understanding of what that information implies at the time they choose a course of action. This means that they—and we, as students of politics—need to understand how to make choices while still in the dark about how things will turn out. And that means they need to have some way to evaluate alternative arguments and to use evidence from the past to help inform decisions before results can be known. That way is theory building and **testing**.

For instance, does Iran intend to build a nuclear weapon or, as the Iranian leadership claims, is Iran just interested in developing civilian nuclear energy and medical isotopes? A plethora of facts, such as Iran is enriching uranium; Iran has built thousands of centrifuges; Iran has underground, formerly secret nuclear research facilities; Iran has a domestic shortage of petroleum because it needs to **export** its crude oil for foreign earnings; and Iran’s supreme leader issued a fatwa declaring nuclear weapons un-Islamic does not tell policymakers whether Iran’s leadership intends to build nuclear weapons or intends to do just what they say they intend to do. These are all important facts, but decision makers also need theories to guide them in seeking out specific facts that could help them tell apart competing explanations for what Iran intends to do. Competing theories may overlap in their explanations. For instance, a theory that assumes Iran’s religious leaders view nuclear expansion as critical to deterring a threat to their regime from the United States and Israel is consistent with the observed facts. Also consistent with the observed facts is a theory that infers that Iran’s leaders believe heaven awaits those who martyr themselves by destroying Israel. And also consistent with the observed facts is Iran’s claim to be interested in civilian nuclear energy. So these facts do not help us sort out Iranian intentions.

For policymakers to sort out which of the competing views (e.g., deter threats to Iran, destroy Israel, develop civilian nuclear energy) more accurately reflect Iranian intentions, it is necessary for them to figure out which prospective facts would *not* be consistent with all of these theories but might be consistent with one or two of them. For example, if Iran were detected to be testing a nuclear bomb trigger—the trigger essentially being a smaller atomic explosion—then decision makers would know that Iran’s actions are consistent with an effort to deter outside efforts to impose regime change or intentions to attack Israel and that their actions are not consistent with the intention only to develop civilian nuclear energy. Theory, then, serves as a guide to identify facts to look for to sort out competing explanations. That search for relevant facts is, in fact, a major occupation of intelligence agencies and exactly for the reason that ferreting out relevant facts can help reduce the number of competing explanations behind observed behavior. Just such information is critical for good, informed decisions by policymakers. So theory is not just pie in the sky; it is the critical ingredient in guiding choices about foreign and domestic policy.

This chapter develops rules for selecting among competing explanations and evidence so that we form a shared basis for judging facts as evidence. By using the scientific guidelines set out here, you will learn to evaluate the logic and evidence for alternative explanations of international relations. We draw distinctions between assumptions and hypotheses. We distinguish between the **empirical accuracy** of hypotheses and assumptions (i.e., how well facts fit with a theory’s predictions) and become familiar with the first principle of wing walking as a guideline for choosing among competing theories. The distinctions made here constitute the basis for applying the scientific method to international affairs.

As the discussion of Iranian intentions highlights, our understanding of arguments and evidence about international relations depends both on facts and theoretical perspective. An outlook that focuses on facts alone—a purely inductive approach—is impossible; all of us select facts to look at based on the theories we carry around with us, just as how we interpret those facts is shaped by that theoretical point of view. Employing a useful set of tools—that is, an effective theoretical perspective—for making sense of facts may allow us to predict the range of actions available to policymakers in international affairs and may even help us predict how things will turn out (Bueno de Mesquita, 2009). In doing so, we may help to engineer better

decisions in the future than have sometimes been made in the past.

Theorizing begins by picking and choosing what we think is important for explaining how cooperation or conflict arises. For example, should we focus on the distribution of military might across countries; the flow of trade; variations in political institutions; the personality characteristics of particular leaders; or differences in cultures, languages, or religious beliefs? What seems important is in the eye of the beholder; whether the beholder is right or not depends on how well the evidence fits the beholder's—the theorist's—point of view.

WHAT IS A THEORY?

Theories state the expected relationships between variables. Expectations are formed by linking some variables as causes or probabilistic contributors to other variables as consequences in a series of logically connected arguments. The logical connections stipulate the relationship between the variables. A variable is a characteristic, event, or idea that can take on more than one value. Constants—that is, characteristics, events, ideas, and so forth that have only one value—are not variables. Consequently, theories are not about constants.

In the theory of arms races, for example, the dependent variables generally include such concepts as the arms expenditures of a country and the likelihood that a country will find itself at war. These are the phenomena that theories of arms races are designed to explain. Notice that the dependent variables are not individual events such as World War I or the 2012 US defense budget. Rather, World War I might be an event that constitutes one of many events reflected by a dependent variable, such as the “likelihood of war.” The 2012 US defense budget, likewise, is an example of a defense expenditure decision; it is not itself a variable but, rather, a single value or single observation. A series of such values or observations creates a variable.

All theories include dependent and independent variables. A dependent variable is something that we hope to explain; an independent variable is something that we think will provide us with all or part of the explanation of the different values taken on by the dependent variable. Statements about how independent variables relate to dependent variables constitute the propositions or, equivalently, the hypotheses of a theory. These hypotheses, in turn, provide the basis for predicting the values of the dependent variable

in the past and, most important, in the future.

The relations among variables generally take one of four forms:

- Some value or values of independent variable A are necessary for some predicted value or values of dependent variable B (necessary conditions satisfy the statement: if not A, then not B).
- Some value or values of independent variable A are sufficient for some predicted value or values of dependent variable B (sufficient conditions satisfy the statement: if A, then B).
- Some value or values of independent variable A are both necessary and sufficient for some predicted value or values of dependent variable B (if not A, then not B, and if A, then B).
- Some value or values of independent variable A probabilistically give rise to some predicted value or values of dependent variable B (if A, then probably B).

Two common independent variables in theories of arms races are (1) the magnitude of the perceived threat coming from an adversary (often measured as that country's level of arms expenditure) and (2) the domestic demand for consumer goods, public services, and so forth other than defense (i.e., guns vs. butter or defense vs. consumerism). Changes in the values of the independent variables are expected to lead to changes in the value of the dependent variable. For example, in a famous arms race theory developed by Lewis Fry Richardson ([1960] 1949), increases in the level of perceived threat and decreases in public demands for consumer goods and social services together are expected to lead to an increase in the likelihood of war. The theory of arms races states relationships between its independent variables and its dependent variable. It does not state a detailed explanation of a single event; rather, it tries to provide an explanation for at least one class of events.

Predictions follow from the propositions deduced logically in a theory. They serve as a way of testing a theory's explanation (Friedman 1953). Reliable explanations almost certainly suggest that at least some reliable prediction is possible provided that the necessary tools of measurement and observation are available. Accurate predictions, however, can be achieved even without a meaningful explanation, and a meaningful explanation may lead only to limited predictive accuracy. Consider an example of accurate

prediction that does not provide an explanation. Cricket chirps are highly correlated with the temperature of the air. If we know the number of cricket chirps per minute, we can predict the temperature outside quite accurately even though we may not have a clue about why crickets chirp as often as they do. It is certainly more likely that the temperature influences the chirping of crickets than cricket chirps influence the temperature.

CONSTRUCTING THEORIES

How is a theory constructed? In some ways, there are as many answers to this question as there are theories—or theorists. But every theory has some core features in common. For example, every theory contains a set of assumptions. The assumptions of a theory are its crucial building blocks; they specify the group of simplifying conditions under which the theory is expected to be a helpful tool for explaining and predicting the phenomena with which it is concerned. In the study of international politics, a researcher selects assumptions that reflect her views and understanding of international affairs. Consequently, different researchers adopt different assumptions as they try to explain a broad range of international events.

For instance, one well-regarded theory of international politics is called neorealism (see the introduction). Neorealist theorists are interested in explaining when the set of states in the world and the relations between them are stable and when they are not. To do so, they assume that states are unitary actors without any internal domestic divisions or factions even though all neorealist theorists know that in every state many individuals, often with different opinions, are involved in decisions that influence international politics. Neorealists make the implicit judgment that variations in opinions from decision maker to decision maker are not sufficient to distort the predictions made by a theory that assumes states are holistic unitary actors.

Conversely, those who theorize based on the notion that bureaucracies shape foreign policy reject the idea that states are unitary actors, preferring instead to focus on the organizational mission of specific bureaucracies and their leaders. Naturally, these researchers know that on some issues, such as the American declaration of war against Japan on December 8, 1941, there was virtual unanimity (one dissenting vote in Congress) among responsible decision makers in the United States. They know that the unitary actor assumption can be a helpful convenience in some cases, but they believe it

oversimplifies reality in too many cases to be of real help in structuring a reliable account of international affairs. Neorealism rejects the idea that military spending or the perception of a threat to national security reflects manipulation by generals in order to increase their defense budget, but theories about bureaucracies imply the idea that generals try to manipulate threat **perceptions** to increase their budgets. Thus, neorealism and bureaucratic politics theories make different predictions about military spending and the risk of war. These different predictions under equivalent circumstances allow us to test these theories and to identify the contingent circumstances under which one or the other more accurately reflects what we observe about arms expenditures and the risk of war.

Assumptions are the principal means by which theorists simplify reality. Assumptions describe the set of conditions under which the theory's predictions are expected to hold. That means that one of the most important questions to ask about any theory is whether its assumptions limit the domain of circumstances that the theory is capable of addressing so much that the theory seems trivial. If a theory's assumptions prevent it from addressing the real-world phenomena that motivated its construction in the first place, then the theory's value is certainly limited.

If, for instance, we are interested in explaining why small wars occur, then a theory that addresses *only* the causes of global war is not very helpful. Such a theory does not provide an answer to the question that motivated the construction of the theory in the first place. The more events or facts a theory can explain with a limited set of assumptions, the more useful the theory is. This is the principle of parsimony. Thus, a theory of war that does not require us to distinguish between big wars and little wars has greater potential value for the study of war than does a theory of nuclear war or a theory of short, low-cost, bilateral wars or a theory of trade wars. A theory of politics that explains the distribution of wealth, trade policies, corruption, human rights, and also explains big wars, small wars, and negotiated peace is more useful still, even though—or rather, because—it was not constructed to explain war alone.

JUDGING THEORIES

Making a judgment of any theory's worth depends on its logical truth or falsity and on whether its predictions are trivial or useful. The logical

truthfulness of a theory is a question of consistency; that is, no assumptions can contradict others contained within the same theory. The accuracy of empirical predictions about what happens in the world is the primary means we have to judge the usefulness of a theory as an explanation for the real-world events that concern us. As human beings, we often make value judgments, but we should not confuse these with the dispassionate evaluation of the logic and evidence for and against a theory. We do not have to like a theory's implications for those implications to be true. And we certainly cannot make the world a better place by ignoring unpleasant or inconvenient realities. In fact, we must confront those realities through logic and evidence so that we can think about how to improve the world without violating the laws of nature.

TRY THIS

What do you think is the effect on the likelihood that country A will fight a war with country B if the following occurs?

1. B threatens A, and A's citizens are prepared to sacrifice consumption to support increased spending on A's military.
2. B threatens A, and A's citizens are not prepared to sacrifice consumption to support increased spending on A's military.
3. B reduces its threat against A, and A's citizens are prepared to sacrifice consumption to support increased spending on A's military.
4. B reduces its threat against A, and A's citizens are not prepared to sacrifice consumption to support increased spending on A's military.

Consider whether A's spending more on the military deters B from escalating its threat against A or leads B to believe that A is preparing to attack. Consider whether A's spending more on the military is a response to B or is a response in A to politicking by A's generals to increase their budget. Consider whether asking the citizens in A to sacrifice consumption for defense is likely to be beneficial or harmful to the reelection of a democratic leader and to the retention of an autocratic

leader. These are just a few of the calculations that policymakers must go through in deciding how to respond to changes in perceived threats from abroad.

The Importance of Logical Consistency

A good starting place to judge a theory's value is to evaluate whether its assumptions contradict one another—that is, whether there are **internal inconsistencies**. If they do, there will be considerable confusion about exactly what the theory predicts or what its explanation is—and this confusion will be irreconcilable. The presence of internal inconsistencies means that at least part of the theory is false on logical grounds. We do not even need to look at reality to judge its usefulness. Predictions that depend on logical contradictions cannot be useful because, whatever is observed, the opposite might just as easily be a prediction that can be defended using the same theory. These predictions will be of the type “if A, then B, but also if A, then not B and, maybe, if not A, then B.” Such a theory has nothing valuable to say about the relationship between independent variable A and dependent variable B.

Contradictions are sometimes unintentionally overlooked or sidestepped when scholars theorize about international affairs. We can and must guard against such oversights by insisting that assumptions be stated clearly and explicitly. Only when we know all of a theory's assumptions can we figure out the logical connections that link the independent and dependent variables in the theory. There is no room for careless reasoning because such reasoning can get us—and the world—into too much trouble. To see how much trouble logical imprecision can cause, consider the following assumptions from a prominent theory of international politics:

Since the desire to attain a maximum of power is universal, all nations must always be afraid that their own miscalculations and the power increases of other nations might add up to an inferiority for themselves which they must at all costs try to avoid. Hence all nations who have gained an apparent edge over their competitors tend to consolidate that advantage and use it for changing the distribution of power permanently in their favor.... The status quo nations, which by definition are dedicated to peaceful pursuits and want only to hold

what they have, will hardly be able to keep pace with the dynamic and rapid increase in power characteristic of a nation bent upon imperialistic expansion. (Morgenthau [1948] 1978, 215–217)

This statement is drawn from perhaps the most influential international relations theorist of the post–World War II decades, Hans Morgenthau. His theory of realism focuses on power as the essential determinant of how nations relate to one another. His is a brilliantly parsimonious effort to develop a comprehensive set of generalizations, or laws, about politics among nations. Much of his theory offers keen insight and wisdom, which is why his writings are still influential with policymakers today. Yet his theory houses fundamental contradictions, as reflected in this quotation. And these contradictions make it difficult to figure out exactly what Morgenthau is arguing or what his theory predicts.

On the one hand, Morgenthau’s theory of realism is about a world in which each and every nation wants power so badly that it pursues the acquisition of more and more power at any cost. On the other hand, we are told that there are at least two kinds of nations in the world: status quo powers, which are content with what they have and so do not pursue increases in their power, and imperialist powers, which are dissatisfied with the amount of power they have and so try to gain more. What, then, does the theory predict about the relationship between a nation’s power and its actions?

Looked at purely as a problem in logic, nations are defined as of two types: (1) status quo–oriented and (2) imperialist. The first part of the quotation states a universal characteristic of all nations such that if A is a nation (i.e., A is status quo–oriented or imperialist), then A tries to change the distribution of power to its advantage regardless of the cost. So if A is a nation and B is shorthand for “the pursuit of an advantageous change in the distribution of power,” Morgenthau predicts if A, then B: being a nation is sufficient to pursue increases in power. But then, the second part of the quotation says that if A is a status quo nation, then A does not try to change the distribution of power in its favor—that is, if A, then not B, given that A is status quo–oriented. This second claim denies the universality of the first claim: both cannot be true. We cannot simultaneously argue meaningfully that if A then B and if A then not B.

Actions by an imperial power can be consistent with the theory. Actions

by status quo nations always contradict some condition of the theory and are consistent with other parts of the theory. Therefore, behavior, at least for status quo nations is not, in fact, predicted by the theory, and the theory cannot be proven to be wrong, even in principle—not to mention that Morgenthau provides no guidance on how we identify types of nations **ex ante** (i.e., before we observe their behavior). Consistency is a fundamental, immutable requirement of any theoretical proposition or prediction. Without logical consistency, theories are overly casual arguments that provide no guidance in making predictions or proffering explanations.

Truth and Falsity in Assumptions

Assumptions are not casual statements to be taken seriously when it is convenient and ignored otherwise. An assumption is a defining characteristic of a theory. A theory cannot exist outside of its assumptions because it is the logical connections among the assumptions that imply the theory's hypotheses. I emphasize the importance of consistency because it is virtually impossible to know what is being argued when theorists (or policymakers) contradict themselves. And we cannot evaluate arguments if we do not know what they are. Because assumptions are so important, it may seem appropriate, even important, to establish whether a stated assumption is true or not. However, in my opinion this is not a fruitful basis for evaluating a theory. As I explain my view on this issue, keep in mind that my viewpoint, although quite common in the physical sciences and in much of economics, is controversial among some social scientists.

To begin with, what exactly is meant by *true* or *false*? We can distinguish between the two on purely logical grounds. A true theory is one in which the predictions follow logically from the assumptions. This is a somewhat narrow use of the term, and you may prefer to substitute the phrase *logically true* in its place in the discussion that follows. If the propositions cannot be derived logically from the assumptions, then we can say the theory is false. A theory with contradictions in it, then, is false (at least with regard to the parts influenced by the contradictory assumptions). In these terms, Morgenthau's theory, or at least part of it, is false. Note that I have not arrived at this judgment because I disagree with any one of his assumptions. My disagreement with any of his individual assumptions would be a matter of taste or personal judgment. I do not have to have an opinion about whether all

nations seek to maximize power or whether nations are divided into two types—(1) status quo and (2) imperialist—to reject Morgenthau’s argument. Both conditions cannot simultaneously be logically true, and that—not personal judgment—is what matters. Whether two (or more) assumptions are mutually contradictory is not a matter of taste; it is a matter of logic.

TRY THIS

How would the implications of Morgenthau’s theory change if status quo states did not avoid an inferiority in power at all costs but, instead, were willing to tolerate an inferiority in power to reduce their costs so they were lower than in imperialist states? Could imperialist and status quo states coexist?

We can distinguish true and false from the notions useful and trivial. The usefulness of a theory is an empirical question. If the theory makes predictions that reliably help us understand the questions that motivated the theory’s construction, then the theory is useful. If the predictions are irrelevant or excessively inaccurate, then the theory is trivial. So while true or false refers to the internal logic of the theory, useful or trivial refers to its empirical value. False theories are inevitably trivial.¹ Some true theories are also trivial because they fail to account for the facts we hoped to explain. What we all seek to discover are theories that are both true and useful.

So what is meant by true or false when it comes to assumptions? Because true and false refer to **internal consistency**, I do not attempt to establish whether this or that individual assumption is true or false. What I do address is whether the set of assumptions behind a theory is both true and useful. The set is true if the assumptions do not contradict one another and the predictions derived from the theory follow logically from the assumptions—that is, it has internal consistency. The set is useful if the assumptions lead to explanations and predictions that are consistent with reality according to some stated criteria for evaluating the theory’s empirical performance. Although individual assumptions may describe a world we do not care about (and so may be trivial), a single assumption cannot contradict itself and so is neither true nor false.

Even recognizing this, we still may object that some assumptions are not

true in the sense that they misrepresent an important part of reality. Yet when people say such assumptions are not true, they really mean that they are not useful. For example, it is common among many international relations researchers to talk about the national interest (Krasner 1978) or the nation's foreign policy. The nation is treated as if it were a unitary, singular actor, almost as if it were a human being. Such a description of a nation is obviously not true. No nation consists of a single person or of a large number of people who unanimously hold the same opinion about every foreign policy matter. The unitary actor assumption seems to be at odds with reality much of the time. But does that necessarily mean that we should toss it out? Although it *may* not be a useful assumption, I am confident that such a judgment cannot be made at the time the assumption is stated. We must always keep in mind that theories inevitably simplify reality in order to make explanation and prediction feasible and practical. Assumptions are the vehicle through which theorists simplify. Perhaps the unitary actor assumption simplifies too much, and perhaps it does not. We can judge the value of assumptions (apart from their internal logical consistency within a theory) only in terms of their output. What does this or that assumption contribute to the theory's explanation and prediction of events? This is the relevant question for judging its value. Tossing out the unitary actor assumption means that we must dispose of our inclination to talk about the *nation's* policy, the *state's* interests, and so forth. So embedded is the notion of the state as a meaningful concept that we should be cautious about throwing out the unitary actor assumption before demonstrating that there is a more useful, productive representation of reality.

If a set of assumptions provides many and a high proportion of accurate predictions, then it does not simplify reality too much. If the assumptions of a theory do not provide many helpful and accurate predictions, then they do simplify too much. We can make these sorts of judgments only after we have evaluated the whole of any theory and have seen what happens as we drop each of its assumptions, one at a time. We cannot tell how valuable an assumption is going to be on philosophical grounds. The value of one or another assumption is a practical matter; if an assumption adds to the theory's predictive ability more than it takes away, then it is useful. Because the addition of assumptions increasingly restricts a theory's domain, it is important that we have only enough assumptions to deal with the circumstances of interest. The more assumptions we add, the fewer are the

circumstances to which the theory can be applied. Therefore, it is useful to know exactly which assumptions from a theory are required to produce each of its hypotheses. Some hypotheses may need only a few assumptions whereas others require the whole set. If any assumption is not required for the predictions that follow from a theory, then that assumption need not be included in the theory.

When the critics of a theory argue that an individual assumption is false, they are really saying that either they have evidence that the implications or predictions that depend on the assumption are not useful or are logically false or they are making an argument based on taste, their personal likes and dislikes. Arguments based on differences in taste generally are not productive. Just as different people find different forms of music or painting or literature or movies or foods or clothing appealing, so too do different people find different theoretical perspectives more or less appealing. The best way to deal with such differences in opinion about what are potentially fruitful assumptions is to put alternative views of the world to the test of history and to the test of the future. In this regard, it is wise to be pragmatic. None of us truly knows exactly how international relations work, just as no one truly knows how the physical world works. If we knew completely how any physical or human sphere of study really worked, then that subject would be a dead subject. No new research would be needed no matter how many new facts were accumulated or how much time had passed. If the phenomena are fully explained, then there is nothing new to say. For example, no one is still studying the causes and cure of smallpox; a full explanation has been achieved. Perhaps a new variety of smallpox will emerge in the future (as has happened with tuberculosis), thereby creating a need for new theorizing or new empirical research, but for now the subject has nothing left to study. This is not the case with international politics. In international politics, we do not have a full explanation; instead, we must judge whether one theory or another explains more of the facts of interest without creating more confusion than clarity.



When wing walking, it is best to hang on tight. Whether on a plane or at the negotiation table, there is no net should you lose your grip, and a fall could be fatal.

THE FIRST PRINCIPLE OF WING WALKING

Explanations are always tentative. Theories are expected to prevail only as long as they outperform rival explanations of the same phenomena. If a more accurate, more predictive explanation comes along, it is likely to supplant less successful theories. This may happen quickly or it may take many generations, but eventually better ideas come to prevail over inferior ones.

Sometimes theories, although capable of being proved false, can accommodate the discovery of *some* contradictory evidence. They are judged to be false only if the body of contradictory evidence grows large enough. Consider Ptolemy's theory of mechanics, which predated Newton's theory. No one today relies on Ptolemaic theories of motion to explain the movement of planets and stars even though for most everyday purposes the Ptolemaic view does as well as Newtonian mechanics and Albert Einstein's theory of relativity. Ptolemaic theory persisted for a long time, but the ideas of Nicolaus Copernicus, Johannes Kepler, and others eventually shook scientists' confidence in it. Ptolemaic astronomy predicts fewer events correctly than does Newtonian theory (which does not do as well as

Einstein's). For instance, although Ptolemy's theory does rather well in predicting the motion of heavenly bodies, it does not do well in predicting the trajectory of falling objects on Earth.

Ptolemaic theory contends that planets do not follow elliptical orbits around the sun but, rather, follow epicycles (roughly, loop-the-loops) around the earth. Such a pattern of movement is consistent with observations taken from the night sky. If we plot the location of a distant planet from night to night over the course of the year, we will not observe an orderly path of motion. The path can be made predictable, however, if we assume that the planet loops back from time to time. But once we accept Copernicus's theory that the sun, not the earth, is at the center of the solar system, Ptolemaic astronomy no longer makes sense. Eventually, the evidence against the Ptolemaic view became too great for the theory to be sustained. Rival arguments did a better job of explaining the facts, including those the Ptolemaic perspective simply could not accommodate.

Clearly, we need some guidelines to help us judge when the evidence or the flaws in an argument are sufficient to conclude that the theory or argument in question is inadequate. In our everyday lives, we make such judgments all the time. Few of us rely on our daily horoscope to plan our activities. Reading horoscopes may be fun, but there just does not seem to be a reliable relationship between prediction and reality. We have concluded that it is not an adequate tool. It is the accumulation of evidence and counterarguments about what happens in reality that is at the heart of choosing among competing theories. We would be rather alarmed to discover that our foreign policy leaders choose their actions according to horoscope readings. In fact, false rumors that Ronald Reagan relied on astrological readings during negotiations with Mikhail Gorbachev created quite a stir, and a few jokes were told at Reagan's expense.

Sometimes we cling to a theory even when we know it is not reliable. Usually we do so in accordance with the first principle of wing walking. If you are out on the wing of an airplane in flight (and I *really* recommend against finding yourself in such a situation), don't let go of what you are holding on to unless you have something better to hold on to. Even then, you may have to think twice about letting go. Knowing that something better is available does not mean that the alternative is sufficiently attractive that you immediately want to make the switch, especially if there are associated risks or **costs**. This is one reason why Ptolemaic mechanics held sway for so long.

However hard it was to believe that planets or stars loop back on themselves, there was no point in giving up that theory until something better (such as Newtonian mechanics) came along. Even then, switching was costly, so people clung to the old ideas for a long time. Newtonian mechanics was not regularly taught in British schools for 100 years after their development.

The first principle of wing walking is particularly relevant when dealing with beliefs about how things work in the world. Giving up beliefs is costly. The benefits of a new set of beliefs had better be large enough to compensate for the costs of abandoning the old ones. One reason that international politics may be predictable is that beliefs are not easily abandoned. Because leaders stick to their beliefs until it becomes too costly to continue to do so, behavior is likely to run a predictable course.²

Consider this simple example of the costs of switching from an inferior tool to a superior one. Suppose we are doing a fix-it job at home; perhaps we are assembling a new television stand or wiring a stereo. In either case, we probably will need a screwdriver. Now, perhaps we do not have the best-fitting screwdriver for the job, but we do have a screwdriver that will work—even if it wiggles around in the screw slot a bit too much. Most of us would know that a better-fitting screwdriver exists, but most of us would not spend the time and money involved in getting the better tool. After all, we probably won't need the new tool very often, and the screwdriver we do have is adequate—not ideal, but adequate. So it is with the selection and the use of theories. We do not always strive to use the best tool because identifying the best tool may be too costly, or even if we know what tool to use, it may be too costly to learn how to use it. If the stakes are large enough, and errors are expected to be sufficiently costly, then we probably will spend the time and money to learn about a better tool. If, for instance, we need to repair a fighter aircraft with a screwdriver, then we will probably get the best screwdriver available for the task. The cost of an error is too great to risk using the wrong tool. Crossed stereo wires are one thing; a malfunction at 40,000 feet at twice the speed of sound is quite another.

The first principle of wing walking was an essential (although unspoken) feature of the national security debate in the United States during the presidency of Ronald Reagan. At that time, the noted physicist (and father of the hydrogen bomb) Edward Teller proposed a defensive response to the threat of nuclear holocaust. The policy Teller proposed was to develop a defense against incoming missiles. This was known officially as the Strategic

Defense Initiative (SDI); its critics dubbed it “Star Wars.” Teller’s proposal represented a sharp departure from existing US policy and a return to a military approach more commonly seen before World War II.

Before World War II, an important feature of any nation’s military policy was to maintain a strong defense against foreign aggression. The emergence of a nuclear threat, however, changed this thinking in the United States. Americans introduced the idea of mutually assured destruction (MAD) in which it was thought that the best defense against nuclear war was an offense so powerful that it could ensure its possessor’s ability to wreak unacceptable destruction even after an opponent had launched a successful first-strike attack. Under MAD, cities and civilian populations were the priority targets of attack rather than weapons and military installations precisely because it was thought that the fear of such devastating and demoralizing losses would curb anyone’s appetite for war. SDI would have changed that by providing a protective shield against the destruction of cities, a defensive **strategy**. Among the many arguments made against SDI, one focused on the technical unfeasibility of the program. Another relied on the first principle of wing walking. That is, many observed that nuclear **deterrence** through MAD had successfully provided peace and stability for decades. They believed that there was no good reason to switch to a different approach that might or might not prove to be a significant improvement over existing policy. They chose to live with the existing theory of nuclear security (nuclear deterrence) rather than switch to a new theory based on defense (SDI). Debate over SDI persists to this day. Some argue for the development of an antimissile defense system, while opponents decry the effort as a risk to international stability.

The first principle of wing walking forces us to pay attention to the costs as well as to the benefits of alternative ways of thinking about a problem. Weighing both costs and benefits is one of the reasons that some rather disappointing theories of international politics remain prominent long after they have been shown to be lacking in explanatory or predictive capabilities. After all, the first principle of wing walking encourages caution in rejecting theories. It reminds us to be skeptical of new ideas while it also encourages us to be open to persuasive evidence against old ideas. One threat to such openness arises because we have certain “habits of mind” that help us in thinking about things (Margolis 1993). Consider a simple example. Look around you, and make a list of some of the objects that you see that are moving and some that are not. Perhaps you have noticed that the chair you

are sitting on is quite still (or are you rocking back on its legs?) but that people around you are moving about. Surely you can draw up a long list of things that are moving and things that are still. However, in fact, *no* object is still—after all, you, your chair, this book, and everything else around you is hurtling through space at tremendous speed.

One of Galileo's great intellectual triumphs was to begin his theorizing by assuming that objects can naturally be in motion unless they are brought to rest. He assumed that this was true of objects such as himself, the planet Earth, the stars, and everything else. Galileo's assumption contradicted a well-established "habit of mind" of his day and, perhaps, even of ours—people usually follow their senses. In Galileo's day, people were used to thinking that stones and trees and especially the earth did not move. It seemed to Galileo's contemporaries that some objects moved—for example, the sun and the moon—and other objects stood still. To them, Galileo's assumption seemed absurd and so, therefore, did the implications or predictions of his theory. Even today, the language we use to describe dawn and dusk depends on the pre-Galilean notion that the sun is moving around the earth, rising and falling, rather than that the earth is moving around the sun and around its own axis.

The notion that objects are naturally in motion represented a radical departure from conventional thinking in Galileo's day. It not only violated people's sense of what was true but it also appeared to contradict Scripture and, consequently, the teachings of the Catholic Church. That, of course, got Galileo into a great deal of very serious trouble. Rather than face the consequences of his heresy, he reluctantly agreed to stop teaching that the earth moved, but neither his recanting nor commonsense observations could change reality or the evidence that would gradually be amassed to show that Galileo was right. The resolution of the issue did not depend on whether or not people liked the assumption, nor on whether or not Galileo recanted his politically incorrect view; it depended on the predictions that followed from the assumption (in conjunction with his other, less controversial assumptions, such as a friction-free surface) and the consistency between the evidence in the world and the expectations from theories that assume objects move until stopped rather than stand still until moved. Galileo's experience teaches us to be humble about assumptions and encourages us not to be overly resistant to new ideas. We should not be too quick to dismiss a theory because we doubt its assumptions. Rather, we should wait for the evidence about the theory's

predictions. The proof of the theory is in the testing, not in our judgment of the quality of its assumptions.

One final comment about assumptions and the first principle of wing walking is in order before we move on. Sometimes people are tempted to dismiss a theory because they believe the assumptions reflect some bias. In fact, they may be right. Capitalists tend to dismiss Marxist arguments on such grounds, much as Marxists often dismiss free market-oriented theories based on ideological bias. This is just another guise by which people object to assumptions on the basis of differences in taste. Whether assumptions are selected because of a bias or not does not matter as long as the standard for evaluating the usefulness of assumptions is how well the theory performs in predicting and explaining events. If the tests are biased, then there will be a problem. However, despite the motivation behind its construction, the theory itself is best judged on the basis of whether it accounts for the facts it was constructed to explain and predict. Biased assumptions have no advantage over unbiased assumptions (whatever those may be) in regard to empirical performance.

THE CASE STUDY METHOD AND TESTING THEORIES

In international relations research, it is common to evaluate the empirical usefulness of theories by presenting one or several case histories that are consistent with a theory's predictions. The evaluation of a theory through the close scrutiny of a single event and its associated details is often referred to as a case study. Case studies can be helpful tools for developing ideas about a phenomenon or for shedding light on a specific event, but when cases are selected because they are consistent with a particular claim, they are not a fair test of the accuracy of the claim.

For example, consider the following test of the claim that arms races cause war. We look at the circumstances of the relevant nations just before the Napoleonic wars, World War I, and World War II, and we see that in each case an arms race was in progress. We infer, therefore, that the claim that arms races cause war is true. But this inference is not warranted by the evidence for many reasons—one of which is that there are many other (overlooked) examples in which arms races were not followed by war.

Picking cases because they are consistent with a theory leads us to miss all those cases that could refute the theory; this is a form of **selection bias**. In the example just given, the arms races were identified only after we knew that there was a war, so the selection of cases was driven by **ex post** knowledge of the value on the dependent variable. Ex post case selection is a no-no for testing a theory unless the theory predicts that A is necessary for B; then we want to know can we find an example of B (the dependent variable) that was *not* preceded by A. Since arms are required to fight a war, it seems more plausible that the expectation of war leads to an arms buildup rather than that an arms buildup leads to war.

Sometimes people try to justify selecting cases that are consistent with a theory by noting that they are picking a “difficult” case. Usually this just compounds the problem because the case is difficult in the sense that it is not representative of the class of events that the theory seeks to explain. That is, the case is difficult because it has some features that make it extremely unusual. Cases for investigation should be selected because they represent a wide array of variation on the independent *and* dependent variables not because they represent a particular value on the dependent variable or because they seem difficult because confounding factors are in operation. This principle of random case selection has been well established among statisticians for over a century.

Remember that theories are about relationships among variables, not about constants. Yet many, many investigations of the causes of very large wars examine only the constants. There are literally thousands of studies on the causes of World War I. Some of these evaluate a theory, or at least some hypothesis, about the causes of deadly, long, multilateral wars. But these studies select facts based on a particular value of the dependent variable. In fact, the dependent variable turns out not to be a variable at all. It is a constant within the case, which leaves nothing to be explained. For instance, understanding the causes of large wars requires that we understand how those causes differ from the causes of small wars or other types of conflicts. Looking at only large wars leaves no variation in the thing to be explained—namely, the causes of large wars. If we want to know what makes them large, we must also know what factors prevent other conflicts from turning into large wars. We need cases with different scales of war that can be compared with one another.

A similar problem in selection bias is common among studies of

international political economy when such studies focus on regimes and cooperation. Many researchers are interested in evaluating what impact regimes have in encouraging cooperation. Regimes, in this context, refers to organizations, institutions, or norms that regulate a pattern of behavior (Ruggie 1975; Krasner 1983; Keohane 1984; Morrow 1994a) and are explored more fully in [chapter 7](#). Usually the interest behind regime studies is in explaining cooperation between states. Commonly, the researcher selects a case with a known cooperative outcome and then looks for the existence of an international regime or organization that can be said to have fostered the cooperative outcome. Perhaps the author is correct in the assessment of the role of the regime, but this does not at all tell us whether similar regimes also operated in settings that did not lead to cooperation between states. The question of whether certain regimes promote cooperation (a relationship between variables, including the presence or absence of a regime and the presence or absence of cooperation) simply cannot be evaluated without knowing more about the tendency of the regime context to produce cooperative outcomes compared with circumstances not embedded in a regime context. Are there regimes designed to foster cooperation that end up yielding conflict? Of course there are, but studies typically do not pay attention to these failures and so produce biased inferences. The Organization of the Petroleum Exporting Countries (OPEC), which was designed to foster cooperation among oil-producing and oil-exporting countries, is frequently home to conflict among its members over what their oil production quota ought to be. Although widely studied by economists and others interested in cartels, there are few studies of OPEC done by regime theorists interested in international cooperation.

Are there instances of cooperation without a regime? Again the answer is yes. For decades, the US government and the Israeli government have demonstrated a high degree of cooperation without relying on a formal alliance agreement. Although substantial research has been done on US-Israeli relations, little of it has been conducted by international relations specialists interested in the role of regimes in fostering cooperation. The cases of OPEC and US-Israeli relations help sort out how important regimes are in fostering, or not fostering, cooperation (Downs and Rocke 1990, 1995). Selecting cases based on the dependent variable by picking only cases of cooperation in regimes introduces an analytical bias and makes use of knowledge about what ultimately happened, knowledge that the decision

makers could not possibly have had before the fact. Analytical bias and hindsight are two elements that we should avoid in designing ways to assess how well alternative theories perform empirically.³

TRY THIS

Think of other examples of international organizations in which the member states commonly fight (verbally or even violently) with one another. Now think of other examples of states that generally cooperate despite having no formal agreement between them about the conditions for cooperation.

Before leaving our discussion of case studies, I add one more set of thoughts to the discussion. It is possible to establish or refute certain claims of a theory unambiguously through the use of even a single case study. To understand this, let us think about case studies, necessity, sufficiency, and interstate cooperation. [Tables 1.1, 1.2, and 1.3](#) look at whether a regime is present (the independent variable) in a set of circumstances and relate this to whether that set of circumstances culminates in cooperation or conflict (the dependent variable). The regimes literature suggests the hypothesis that regimes foster cooperation (see [chapter 7](#)). [Table 1.1](#) shows an example with forty hypothetical observations that support the inference that the presence of a regime is necessary but not sufficient for cooperation. [Table 1.2](#) illustrates an example with forty hypothetical observations that support the claim that regimes are sufficient but not necessary for cooperation. [Table 1.3](#) depicts an example with forty hypothetical observations in which regimes are both necessary and sufficient for cooperation. Keep in mind as you read these or any other data tables that the numbers in the cells of the table represent how many cases fit the value of the row and column variables.

In [Table 1.1](#), we can see that whenever cooperation is observed (the dependent variable), we also observe that a regime is present. At the same time, it is evident that regimes do not guarantee cooperation (it is not a **sufficient condition**); half of the time, when a regime is present there is still conflict. But there is never cooperation without a regime; this is what we mean by a **necessary condition**. If there are no problems with assigning cases to each category in the table, then a single instance of cooperation

without a regime, such as the US-Israeli case, refutes the hypothesis that a regime is necessary for cooperation.

TABLE 1.1 Regime and Cooperation: Necessary but Not Sufficient Condition

Regime	Cooperation	Conflict
Yes	10	10
No	0	20

Table 1.2 shows that whenever a regime is present there is cooperation, although cooperation can also occur without a regime. Thus, Table 1.2 illustrates the case in which the presence of a regime is sufficient to produce cooperation—it is a sufficient condition—but not necessary. This is evident from the fact that there are cases of cooperation without regimes. The hypothesis that a regime is sufficient to ensure cooperation would be refuted by a case in which there is a regime and instances of no cooperation (i.e., conflict), such as the case of OPEC.

Table 1.3 shows that cooperation occurs only if a regime is present and that conflict arises only if a regime is absent, illustrating that a regime is a **necessary and sufficient condition**. Either the US-Israeli case or the OPEC case refutes the argument that regimes are both necessary and sufficient to ensure cooperation.

Suppose a theory makes a weaker prediction than that implied by necessity, sufficiency, or both. If a theory predicts that something is possible under certain conditions—not necessary or sufficient or even probable—then we can prove the claim with just one case. A single demonstration that the specified conditions have occurred and the possible outcome has arisen is adequate to prove such a weak claim. These claims are known as **existence claims**. Let's look at an example.

TABLE 1.2 Regime and Cooperation: Sufficient but Not Necessary Condition

Regime	Cooperation	Conflict
Yes	20	0
No	10	10

TABLE 1.3 Regime and Cooperation: Necessary and Sufficient

Condition

Regime	Cooperation	Conflict
Yes	20	0
No	0	20

Two similar and widely held theories suggest wars that fundamentally alter the structure of international relations—especially relations between the most powerful states—must be large, costly wars.⁴ An alternative view, the theory of strategic competition between states, suggests that it is possible for a system-transforming war to occur even if the war is short and costs relatively few lives. The Seven Weeks' War, fought in 1866 between Prussia and Austria with participation by Italy and several small German principalities, is an example of just such a war (Bueno de Mesquita 1990b). The existence claim of the strategic perspective is proved because this small, relatively low-cost war transformed how the states of Europe related to one another, as suggested by the strategic perspective but in contradiction to the other two theories. This one case does not prove that the theory from which the claim is derived is true—just that the specified phenomenon can exist in contradiction to some other theory.

But testing using a single case is usually not enough. Most theories about international relations or for that matter, any other social phenomenon, make predictions that are probabilistic. Such hypotheses typically say something like, “The more the independent variables increase in value, the more likely it is that the dependent variable will increase.” For instance, a typical hypothesis might say, “The more balanced power is between rival states, the more likely they are to live peacefully with one another.” A single case study cannot provide any information about the credibility of such a hypothesis. The hypothesis claims that there will be a mix of outcomes (that is what *probabilistic* means) associated with changes in the values of the independent variables but that the mix of values will tend toward peaceful relations as power becomes more equal between rivals. Even two or three cases are insufficient to evaluate the accuracy of this hypothesis in a convincing way. When hypotheses are probabilistic, confidence either in a claim or its refutation improves as we observe a larger and larger number of relevant cases. That is, probabilistic hypotheses are better tested with statistical methods than with a small number of individual case histories.

We should also realize that simply because several cases exist that are consistent with a theory's claims is not evidence that the record of history

backs the theory. Consider [Table 1.4](#). Here, as before, we have forty cases—some involving the presence of a regime and a cooperative outcome. If we cherry-picked cases to study we could point to ten cases of the existence of a regime and of cooperation and, according to [Table 1.4](#), another ten cases in which there was no regime and there was conflict. Choosing these twenty cases might lead a naive reader to mistakenly conclude that regimes at least probabilistically lead to cooperation. Yet what the table of hypothetical cases shows us is that cooperation and conflict are equally likely with a regime or without a regime: there is a zero correlation and no causation, between regimes and cooperation in this table.

TABLE 1.4 **Regime and Cooperation: Necessary but Not Sufficient Condition**

Regime	Cooperation	Conflict
Yes	10	10
No	10	10

A Standard for Comparing Theories

How can we choose among competing theories? We can use the first principle of wing walking. This means we choose one theory over another if it clearly outperforms the competing theory (Popper 1963; Laudan 1977; Lakatos 1978). The criteria applied here are straightforward. When two theories make predictions about the same phenomena or set of events, one is judged to be better than the other if it explains those facts accounted for by the competing theory plus some additional facts not explained by the competing theory. Furthermore, the allegedly better theory must explain these additional facts without adding a net surplus of newly unexplained circumstances. Thus, our standard of judgment is quite pragmatic. The more things a theory can explain and the fewer the errors it makes compared with alternative theories, the better it is. A theory will be abandoned only after the evidence shows that a competing theory does a superior job of accounting for the facts. It is not enough to get more things right; the theory must also not get things wrong that were previously accounted for. There must be a net improvement in prediction. There are, of course, practical difficulties in the implementation of this, or any, standard, but at least it is removed from arguments about personal tastes and embedded in criteria on which people can agree.

THE SCIENTIFIC METHOD

There are so many alternative ways to think about what is going on in international affairs that amassing facts and making decisions can be a daunting task. Fortunately, there are sensible guidelines to help us and our leaders evaluate the effectiveness of these alternative ways of thinking about international problems and to decide when a perspective is probably wrong. By using these guidelines, we can expect to make reasonable and helpful judgments about the quality of different arguments and the credibility of the evidence for or against those arguments.

What I am referring to here is use of the scientific method—that is, evaluating arguments in terms of their logical consistency and in terms of the extent to which observational or experimental evidence is consistent with the predictions that they logically imply. The scientific method imposes only a few basic conditions. In doing so, it guides our application of the first principle of wing walking by helping us to see when to hold on to an old theory and when to let it go and embrace a new one. As I emphasized earlier, scientific analysis requires logical consistency. This means that we must state clearly how one set of factors implies or causes another set of factors. Competing arguments can be evaluated through experiments that control for confounding, alternative explanations. This is a much easier requirement to satisfy in the physical sciences than in the social sciences. Within the field of international politics, *controlled experiments* usually mean that theoretical expectations are evaluated against historical data although there is a strong and growing movement toward rigorous laboratory experiments (e.g., Gerring and McDermott 2007; Zeitzoff 2011; and many others). The cases selected for evaluation must be representative of the class of events in which we are interested. To ensure that cases are representative, we choose randomly with regard to factors that are not part of the argument. Randomness ensures that the tests control for the possible effects of other factors. Tests must also be replicable; that is, different researchers examining the same body of observational or experimental evidence should reach the same conclusions even if they are unfamiliar with one another's investigations. The conclusions are not based on personal judgments or on personal values. Theories lead to empirical predictions. This is why both the logic and the evidence for or against a theory are so important.

Predictions are always contingent. They differ from prophecies in that

scientific predictions state that if certain conditions are met, then certain results are expected to follow (Gaddis 1992; Ray and Russett 1996; Bueno de Mesquita 2009). When other conditions are met, then the theory may predict other outcomes. Prophecies are not concerned with the conditions from which consequences follow; they are concerned only with the consequences. Scientific predictions can be about things that have already happened or about things that have not yet happened. For example, using Newtonian mechanics we can predict the location of Mars in the night sky on any day of any year, past, present, or future. If Mars were observed to be somewhere other than the predicted location, then the theory on which the prediction was based would be called into question. This would be just as true if Mars proved to have been somewhere else on a past date or a future date. Tests of theories about international affairs also rely on predictions. Sometimes the evidence is based on how closely past events fit the expectations of a given theory. In the most demanding cases, the evidence for a theory pertains to predictions about events that have not yet happened but that will happen soon enough so that the theory can be evaluated by comparison to the newly occurring facts. How soon is soon enough? It might be a few weeks, months, or years depending on the nature of the theory.

The scientific method focuses our attention on the internal, logical consistency of alternative explanations of the facts and compels us to look for critical, replicable tests and evidence that allow any of us to reach theoretically and empirically defensible conclusions about competing arguments. We may disagree about the interpretation of the evidence or the weight to be given to it in assessing the strengths and weaknesses of a theory, but at least we will be able to discuss these matters based on the same criteria, even if we do not share common judgments or expectations. Careful judgments about alternative theories, grounded in the scientific method, are important because the costs of wrong decisions in international affairs can be devastating. We certainly want to avoid using wrong ideas or ideas that are inappropriate for the problem at hand.

When a Theory Is Wrong

The notion that a theory can “go wrong” does not seem terribly complicated. Most of us probably understand this phrase in pretty much the same way. For one thing, we probably would have no problem agreeing that if a theory

regularly leads to predictions that are inconsistent with reality, then the theory, rather than reality, is wrong. After all, reality is what it is. Reality may be “wrong” in a moral sense—we may not like what happens—but it still incontrovertibly happens. Yet some theorists argue that reality is wrong when what actually happens does not conform to the theorist’s expectations of what should have happened. This is problematic in that it confuses a normative view—how we wish things were—for a positivist view that assesses how things are rather than how we wish they were.

For example, tests of Marxist theory sometimes exhibit this normative characteristic because the evidence is interpreted along Marxist ideological lines. Marxism as a theory is intended to explain changes in economic and social relations over time. It is an effort to explain history and to predict the future course of events. Class conflict is presumed to be inevitable in Marxist theory. If class conflict does not arise, then Marxist theorists usually presume that something is “wrong” with people’s class consciousness. The theory is presumed to be correct, and people are presumed to be mistaken.

Soviet founder Vladimir Ilyich Lenin, a theorist as well as a revolutionary leader, devised such concepts as a *trade union mentality* and the *vanguard of the proletariat* to deal with the problem of inconsistencies between predicted behavior and observed behavior. A trade union mentality is, in more modern parlance, equivalent to false consciousness. Lenin constructed the idea that, because some members of the working class might misunderstand their true interests (i.e., have a trade union mentality), a group such as the Communist Party elites was needed to lead the way for the proletariat. According to Lenin, party elites, the vanguard of the proletariat, could be better trusted than workers to know what was in the true interest of the working class. Indeed, many argue that Lenin’s concept of the vanguard of the proletariat ensured that Marxist theory would, if put into practice along Leninist lines, evolve into a dictatorial ideology. Lenin (1902), in fact, argued in his essay “What Is to Be Done?” against any debate regarding socialist ideology. His logic inevitably led to the conclusion that if the observed facts contradicted socialist or Marxist predictions then the facts were in error because they reflected a bourgeois ideology.

Marxist predictions and reality were not consistent with one another in 1914. Marxist theorists predicted that a world war could not happen because the workers of the world would recognize their common class interests and the divergence between their interests and those of the aristocratic and

capitalist classes who were making war. The workers simply were not expected to agree to serve in the armies of their countries, fighting against their class fellows from other lands. Clearly Marxist theorists greatly underestimated the power of nationalist feelings to join people together—even against members of their own class. Indeed, Marxism had no room for nationalism because nationalism competes with class as an organizing principle. Marxist predictions about World War I proved wrong, but Marxist theorists dismissed the problem as being an error of the workers, who were fooled by false consciousness (i.e., nationalism, trade union mentality, and the like) rather than an error of the theory. They invented auxiliary arguments to cope with the failed predictions of their theory. It took repeated failures, culminating in the early 1990s, before most Marxist theorists accepted the overwhelming evidence that their theoretical perspective was wrong as a practical approach to governance. As suggested by the first principle of wing walking, Marxists were conservative in their unwillingness to surrender their preferred theory. They needed to be convinced by a great preponderance of evidence. They had to reach the point at which they recognized that their auxiliary arguments had become unsustainable.

Note that the addition of auxiliary arguments to a theory is not inherently problematic. If the additional arguments explain previously unexplained events without becoming wrong when applied to previously explained events, then the gains in explanation can exceed the costs in lost parsimony. A theory is more or less parsimonious depending on how many facts it explains compared with the number of assumptions it requires to make predictions. In general, the more events or facts a theory can explain with a limited set of assumptions, the greater the potential usefulness of the theory and the greater its parsimony. So if auxiliary arguments (such as nationalism, trade union mentality, and encirclement by the bourgeois states) are added and explain only one event each then there is no improvement in parsimony. In fact, such additions are evidence that the theory in question is degenerate—that is, the theory needs to make up a special explanation for each new circumstance and so really is no explanation at all (Lakatos 1976, 1978; Elman and Elman 1997; Vasquez 1997). In fact, a practical software tool for assessing the degree of parsimony or efficiency of theories has been developed and tested on many international relations theories (Zinnes 2004). Some of the most prominent realist theories, alas, have been shown not to be parsimonious at all. They contain no more generalizations than assumptions.

The principle of parsimony is important because it provides one benchmark by which we can choose among competing theories. When a theory, or its auxiliary statements, needs to be changed to suit many new observations—sometimes even each observation—then we should suspect that the theory is just plain wrong.

Scientific Theories Must Be Falsifiable

How we judge predictions is certainly open to some dispute. Some theories do not allow any possibility that evidence might show them to be wrong; such theories are not falsifiable. They may be true (or not), but we have no way to be confident they are true or useful (we cannot test them), short of faith. Indeed, religious beliefs can be thought of as a set of theories or tools devised to explain human behavior and phenomena in nature. They may be true (or not), but we cannot judge their veracity by normal scientific standards; we must rely on faith. Core religious beliefs, such as a belief in the existence of God, are not falsifiable, although lesser religious arguments, such as when the world is expected to come to an end, clearly can be shown to be false (although perhaps not convincingly to a believer). It is essential that a theory seeking the imprimatur of science be susceptible to possible falsification. A theory that has scientific standing is falsifiable; that is, it is one for which it is possible to imagine a test or set of tests whose results would lead us to conclude that the theory, or at least its central predictions, are just plain wrong. If no such test can be imagined, then the theory really is an article of faith, not an article of science.

Sometimes people are confused by this idea of **falsifiability**. They think, “Well, if a theory is true, it cannot be falsified, so how can falsifiability be helpful with true theories?” I want to be very clear. Falsifiability does not have to do with whether an argument is true or false; instead, it has to do with whether conditions exist in principle under which we might conclude that the argument is false. In short, true claims cannot be falsified (proved to be false), but they can be falsifiable. For example, every falling object near the earth’s surface accelerates at thirty-two feet per second if we assume that there is no air friction. Apparently this is an excellent approximation of the upper bound of an object’s acceleration despite the fact that the simplifying assumption that there is no air friction is never precisely met. It is also a falsifiable claim. If, for instance, we let go of a rock near the earth’s surface

when there is no air friction and there is nothing holding the rock back or otherwise interfering with it and it rises rather than falls, then the hypothesis would be disproved. Thus, we can state the conditions for falsification. Whether they are satisfied or not is related to falsification; that they can be stated is sufficient to establish falsifiability.

One objective throughout this book is to sort out which theories of international relations are falsifiable and which are not. We can do this by examining the logic of each theory and the evidence for and against it relative to alternative theories. We have seen earlier that an important part of Morgenthau's theory of realism is not falsifiable according to the standards of science. Those who subscribe to parts of it may be right about how the world works, but we have no way to tell. Falsifiability and the examination of logic and evidence are ways we can assess the relative merits of competing explanations while upholding the first principle of wing walking.

TRY THIS

Think of a current foreign policy dispute in which one state is threatening another with dire consequences if the latter does not change its behavior. Has the exact nature of those consequences been made clear (e.g., economic sanctions, military action, or severing of diplomatic relations)? Now think of a dispute in which a state seems to be hiding its true intentions, saying one thing but seemingly doing another. Which is more reliable information: what a state's leaders say they are doing or what they are observed to be doing?

PRACTICAL USES OF THEORIES

Someplace in today's newspaper there is a story about an international dispute, possibly over trade barriers, ethnic rivalries, border clashes, or religious differences. Perhaps Germany and Greece are arguing over the possibility of Greece abandoning the euro and returning to the drachma as its currency. Maybe India and Pakistan are engaged in a dispute over their claims to Kashmir. Possibly the United States and Canada disagree about the interpretation of the North American Free Trade Agreement (NAFTA).

Maybe Mexico is threatening to seal its border, cutting off Central Americans who are trying to pass through Mexico to enter the United States as undocumented aliens. China, Vietnam, Malaysia, Taiwan, and others may each be claiming the rights to oil deposits near the Spratly Islands in the South China Sea. Iran and the United Nations may be quarreling over Iran's weapons-grade uranium enrichment program, or Colombia and Venezuela may be arguing over cross-border raids to contain the drug trade. Romanians and Moldavians may be disputing the location of the boundaries between their territories.

Whatever the headlines, it is evident that there are lots of different ways to explain each of these conflicts of interest. News accounts of ethnic rivalry, the balance of power, economic dependency, or imperialism reflect ideas about theories or organizing principles that explain international affairs. Such common ideas as "do unto others as you would have them do unto you," "an eye for an eye, a tooth for a tooth," and "turn the other cheek" are just a few ways people think about what encourages governments to resolve their differences or discourages them from doing so. Each is part of some theory of international relations that has been developed as a tool that might help us understand how nations relate to one another. Each tool directs us to focus our attention on different facts and offers a different explanation of events.

Theories about norms may turn our attention to the history of past interactions between particular states. If we focus on norms, then we are likely to be concerned about the domestic social and cultural constraints that leaders face. Perhaps the cultural or social values in some countries make using violent strategies especially costly for political leaders. In that case, norms could be a pacifying influence in foreign policy. Balance of power theory, by contrast, encourages us to seek out facts about the power resources of states and to assume that nations are inherently hostile toward one another. We are more concerned with the military might of states if we take a balance of power perspective than if we approach a rivalry from the perspective of cooperative norms. From the point of view of a theory of cooperative norms, such as liberalism or constructivism (see the introduction), power is thought to be less consequential than, for example, the history of shared interests and cultural values.

The choice among alternative theories, or tools, and the standards for evaluating them are important not only for us as students and citizens but also for those individuals entrusted with the responsibility for making the myriad

decisions that describe the relations between nations. Decision makers probably do not choose their courses of action by throwing darts at a list of options. Surely if we believed that our leaders made life and death decisions in such an irresponsible way we would throw them out of office. And that, remember, is a risk that people who are ambitious to lead do not take lightly. All leaders around the world rely, knowingly or unconsciously, on theories of international affairs to help guide their decisions. Leaders often quote the principles derived from such theories as the justification for their decisions. Consider two examples of principles used by leaders in critical foreign policy settings.

Admiral Isoroku Yamamoto, the architect of Japan's attack against Pearl Harbor, was fond of saying, "an efficient hawk hides his claws" (Prange 1981, 13). Here is a generalization about international affairs that helped guide the secretiveness behind Japan's planning and execution of its attack. It may or may not be a helpful principle, but it certainly was an important one. After all, it was not inevitable that the Japanese would choose the secret and aggressive course of action that they chose to carry out on December 7, 1941.

The Japanese might just as readily have taken a different point of view. They might have subscribed to a hypothesis commonly argued by those who believe in the theory of deterrence. Had they accepted a deterrence point of view, the Japanese might have openly declared in 1941 that they would launch a severely punishing attack against American interests unless the United States lifted its trade embargo against Japan and stopped threatening its activities in the Pacific. Probably Japan's leaders would not have wanted to say exactly what the threatened punishment would be or exactly when it would take place. That would have put their fleet of aircraft carriers at unnecessary risk (Colaresi, Thompson, and Rasler 2008). Still, they might have chosen an open threat intended to alter America's behavior. Such an approach would have relied on an utterly different assessment of the appropriate theory for accomplishing their objectives than the theory that led to their clandestine attack. Had they believed they could deter the United States by persuading Franklin Roosevelt that the costs of his policies toward Japan outweighed the benefits, then the threat of punishment alone might have been sufficient to achieve their goals. They might never have attacked any US facilities at all. Here, then, is a case where a fundamental policy choice depended on which theory of international affairs decision makers had in mind. We should keep that firmly in mind whenever we are tempted to

dismiss theory in favor of merely accumulating facts!

TRY THIS

Think of an explanation of foreign policy that is falsifiable. Then think of an explanation that is not falsifiable. When journalists explain clashes between ethnic groups by saying that the fighting stems from cultural differences or from the fact that the groups have hated one another for hundreds of years, are the journalists making a falsifiable claim? Is the claim false? How can you account for the periods of peaceful coexistence between such ethnic groups in light of the journalistic explanation of their clashes?

SUMMARY

The first principle of wing walking establishes that we should not abandon one theory for another until the new theory proves to be a better tool for explaining the events of interest. The reliability of predictions is the primary standard for judging the relative merits of competing explanations of events. Theories provide the linkage between assumptions and empirical generalizations. They stipulate how variables relate to one another. In doing so, theories identify the causal or probabilistic association between independent and dependent variables. They provide a simplified view of reality that is believed to reduce the complexity of the real world to its essential components.

Assumptions describe the set of conditions under which a theory is expected to apply to the phenomena of interest. Hence, assumptions define a theory's relevant world of applicability. If the assumed world is too far removed from the world in which we live, then the theory's predictions will prove unreliable and we will conclude that the theory is useless or trivial. If the assumptions contradict one another on logical grounds, then the theory is logically false and so cannot provide a coherent explanation of the world in which we live. Consequently, theories are judged based on their logical consistency and empirical usefulness. Taste or aesthetic appeal are not relevant in evaluating alternative explanations of international affairs;

adherence to the requirements of the scientific method is critical.

KEY TERMS

costs

deterrence

empirical accuracy

ex ante

ex post

existence claims

export

falsifiability

first principle of wing walking

internal consistency

internal inconsistency

necessary condition

necessary and sufficient condition

perception

selection bias

strategy

sufficient condition

testing

Answers:

1. b. A random sample is preferred to difficult cases because a random sample, if properly drawn, is representative of all cases and so provides a reliable basis for generalization. Difficult cases are, almost by definition, exceptional and unusual and so not readily amenable to generalization. Then, also, we cannot be sure whether the factors that make a case difficult are informative about other cases.
2. b. A single case study cannot falsify a probabilistic prediction or

hypothesis since the nature of probabilistic predictions is the expectation that there is a distribution of outcomes on the dependent variable for given values on the independent or explanatory variables. Necessary conditions state that if not A, then not B and so a case with not A and with B falsifies the hypothesis. Sufficient conditions state that if A, then B. Then if we observe a case with A and without B, the hypothesis of sufficiency is falsified.

3. b. Empirical tests investigate the logical implications of assumptions. They do not test assumptions. Assumptions stipulate the environment in which the implications are expected to hold; the assumptions are taken as given.
4. a. The simpler a theory is—that is, the fewer assumptions it makes—relative to how much it predicts, the better. The objective behind theorizing is to strip away lots of detail and focus in on what is believed to be critical to understanding the phenomenon of interest. Therefore, parsimony is an attractive and desirable feature of theories. Cluttering a theory with details and nuances intended to replicate reality limits the possibility of generalizing to future cases; that is, the possibility of prediction.

¹ Even if some of the predictions of a logically inconsistent theory are supported by the empirical record, the theory must be false. Although the empirical record suggests that it is worthwhile to construct a theory that in fact truly leads to predictions about the events supposedly “predicted” by the false theory, the falseness of the theory still cannot be in doubt. Logical inconsistency can allow us to make almost any claim or statement. Any part of a theory that is logically inconsistent is of no empirical interest per se. So, too, is any part that fails to pass the stated criteria in empirical tests of the theory’s usefulness.

² We will learn how to estimate changes in beliefs in [chapter 13](#) when I introduce Bayes’ rule.

³ Note that selecting cases based on the dependent variable is a problem for any argument concerned with identifying factors sufficient to cause a result unless the hypothetical sufficient condition is met and the outcome event does not occur. Likewise, when the concern is only to identify factors that are necessary for a result and the necessary conditions are not met but the event still occurs, we can use a single case study as a falsifying event (see Most and Starr 1989).

⁴ These theories are discussed in [chapter 5](#). They are known as the theory of the power transition and the theory of hegemonic stability.

2

The Strategic Perspective

When Foreign Policy Collides with Domestic Politics



Robert Mugabe has ruled Zimbabwe since 1980. Although facing increasing domestic and international criticism, he continues to rule through close affiliations with his ruling party, the ZANU Alliance, and the military. Here, Mugabe (right) talks to Central Intelligence Organisation (CIO) director general Happyton Bonyongwe (left) and Army Commander General Constantine Chiwenga (center) on his arrival at Harare International Airport on July 4, 2008.

OVERVIEW

- The strategic perspective alerts us that foreign policy is part of

normal domestic politics and that any national leader faces a difficult problem in balancing the interests of constituents and the desires of foreign rivals. Satisfying domestic interests may put stress on foreign relations and satisfying foreign interests may provoke domestic challenges to the political leadership. This duality of pressures is the fundamental difference between international relations and all other politics.

- Four basic categories of international problems arise: (1) coordination, (2) distribution, (3) **monitoring**, and (4) **sanctioning**. Each of these is molded internally by agency problems: Does a leader (notionally, an agent of the people) do what she wants or what the people (the agent's principal or boss) want? When a leader's actions depart from what the people want, is this a consequence of **adverse selection**? That is, has a leader been chosen who is not capable of implementing the people's wishes competently or is there a **moral hazard** problem? That is, has the leader willfully decided to do what he wants rather than what the people want? If we can solve these problems, we can expect a more peaceful, less combative, and more orderly world.
- Rather than speaking of governments in categorical terms such as democracy, monarchy, and autocracy, we use two crucial domestic factors to differentiate them: (1) the size of the **selectorate** (those with a say in choosing leaders) and (2) the size of the **winning coalition** (those in the selectorate whose support is essential to keep a leader in office).
- Considered together, these two factors allow us to locate all governments in a two-dimensional institutional space and to understand and predict how the leaders of those governments will act and react.
- Politics that rely on a large winning coalition emphasize producing **public goods** over private rewards for coalition members. They produce greater prosperity, more efficient governance, and low rates of corruption; their leaders stay in office for a relatively short time.
- Politics that rely on a small winning coalition and a large selectorate, such as autocracies with rigged elections, tend to produce high degrees of kleptocracy, poor **public policies**, and high

levels of corruption and **rent-seeking**; their leaders last in office for a very long time.

- States with large-winning-coalition systems are more likely to enjoy not only prosperity but also peace, especially with one another, while states with small-winning-coalition systems tend not only to be poor but also to experience lots of wars with other states, as well as undergoing revolutions, civil wars, and coups d'état.
- States with large-winning-coalition systems differ from states with small-winning-coalition regimes in their use of foreign aid, military intervention, warfare, and a host of other critical choices in international affairs.

Assumptions Check

1. Who is more likely to last in office for a decade or longer?
 - a. a leader who promotes peace, prosperity, civil and political rights
 - b. a leader who promotes poverty, oppression, short life expectancy, and general misery
2. Who is more likely to resist the development of democracy in another state?
 - a. a democratic intervener
 - b. an autocratic intervener
 - c. the United Nations as an intervener
3. Wealth produced by natural resources or by foreign aid _____.
 - a. generally improves the welfare of most citizens
 - b. decreases the rate at which incomes are taxed
 - c. raises taxes and make most citizens worse off
4. Democracies win most of the wars they start while autocracies do not because _____.
 - a. democrats are better at fighting wars
 - b. democrats are more selective about when they will fight a war
 - c. democrats are lucky

See end of chapter for answers.

The selectorate theory, which is introduced in this chapter, will offer up answers to each of these questions. Some will be what you expect, and some will be surprises. All will depend on key features of domestic governing structures and how they influence what leaders do and do not try to do. As the little quiz suggests, there are big differences in the incentives political systems provide for leaders who want to stay in power. Some governance institutions seem to give leaders an incentive to rob and pillage their own citizens, whereas other domestic political arrangements encourage leaders to be attentive to the quality of their economic and military policies. What kinds of political arrangements make leaders indifferent to whether they produce peace and prosperity or war and famine? In this chapter, I explain the selectorate theory, a strategic approach that shows how two domestic political institutions shape the motivations of leaders and the actions they take on behalf of their nation. We take as a starting point that policymakers must surely weigh the personal and national costs and benefits that flow both from domestic and foreign pressures in choosing their international actions. Without balancing the two sources of pressure, they are unlikely to remain in power. How they do this balancing is the topic of this chapter.

INTERNATIONAL POLITICS: DOMESTIC POLITICS WITH A TWIST

International relations are the product of the cumulative impact of the foreign policies of the nations of the world. Yet it is the contention of many who study foreign policy—myself included—that domestic and international politics are inseparable and have much in common. There is, however, at least one critical difference between the two. In the arena of purely domestic affairs, political leaders need not worry that their actions will prompt a foreign government to jeopardize their hold on power.¹ Domestic politics involves the selection by leaders of policies (including foreign policies) and

actions designed to keep them in office. In international affairs, leaders must worry that their foreign policies not only may mobilize domestic opposition capable of overthrowing them but also may irritate a foreign rival, sparking attack and possible defeat. That distinction is central to the principles of international politics (Putnam 1988).

TRY THIS

Give examples of political leaders who were overthrown by their own citizens during a war or right after a military defeat. Then identify some leaders who were removed from office by a foreign power after experiencing a military defeat at the hands of that power. Finally, give examples of leaders who were not deposed either by their own citizens or by their foreign rivals, even following military defeat.

A foreign policy that is popular at home, such as the Israeli government's promotion of expanded settler communities on land claimed by the Palestinian Authority, may prove to be disastrous abroad. Conversely, a foreign policy designed to deter a foreign adversary or intended to satisfy the demands of a foreign foe, such as Britain's prime minister Neville Chamberlain's appeasement policy toward Germany in 1938, may irritate domestic opponents or lose the support of domestic backers. This difficulty can arise whether the government in question is autocratic or democratic, although who and how powerful the domestic constituents—that is, the people whose interests a leader is expected to serve—are will surely vary depending on the nature of the regime. I offer two examples, one from autocratic Afghanistan in 2001 and the other from democratic Israel, to illustrate how the tension between domestic and foreign pressures may be resolved differently depending on internal political arrangements.

The Afghan Taliban's Problem in 2001

The former leaders of the Taliban government in Afghanistan saw the tension between domestic pressures and foreign opposition in action following the terrorist attacks against the United States on September 11, 2001. Afghanistan's Taliban leaders drew important support from Osama bin Laden

and others in Al Qaeda's terrorist network, and Al Qaeda had turned Afghanistan into their home base. For the Taliban to break with them would surely have aroused an active effort by Al Qaeda and its allies to depose the Afghan rulers and replace them with others more likely to cooperate. Yet the United States and its key allies were visibly banding together after September 11, 2001, threatening to overthrow the Taliban government unless it broke with bin Laden.

The Taliban chose to gamble that the American threat was less dangerous than the risks associated with breaking with Al Qaeda. Apparently, Afghanistan's leaders did not believe that the United States and its allies would take decisive action to overthrow them if they failed to turn over bin Laden and other terrorist figures. More precisely, the Taliban apparently believed the consequences for them of betraying bin Laden were worse than the consequences of shunning US pressures. They were wrong if they believed the United States would not act, but they may have been right in fearing Al Qaeda more than the United States and its allies. After all, as of this writing in 2012, the most senior Afghan Taliban leaders are still alive and waging a campaign against the US-backed government in Kabul while bin Laden is not. Perhaps if they had betrayed Al Qaeda, they would not only be out of power today but might also have been killed long ago by Al Qaeda loyalists. And with the United States and its North Atlantic Treaty Organization (NATO) allies scheduled to remove troops from Afghanistan, the Taliban may have not only survived but may once again have the opportunity to regain control of Afghanistan in the next few years.

Of course, sometimes the belief that a rival will not take decisive action proves correct. The United States did not take such steps after the bombing by terrorists of the World Trade Center in February 1993 or following the Iraqi-sponsored attempt on George H. W. Bush's life during his trip to Kuwait in April 1993. The US government took only modest steps following the destruction of American embassies in Kenya and Tanzania in 1998 and after the attack on the US Navy ship, the *USS Cole*, in Aden, Yemen, in October 2000. Whether Al Qaeda has been swifter and surer in imposing punishment on those it sees as traitors is difficult to know. We get to observe such information only selectively. What is clear is that back in 2001 the Afghanistan-based Al Qaeda leadership commanded greater responsiveness from the Taliban government than did their foreign, American rival. Today, with Al Qaeda weakened by a decade of attacks against its senior-most

leaders, the Taliban may be more amenable to striking a deal with the American-backed Afghan government. But then, that government, knowing that US forces are scheduled to leave Afghanistan by 2014, may be shopping around for a new patron, perhaps among the Taliban and perhaps in Tehran where the Iranian government has been showering the Afghan leadership with money (as has the US government for a decade or so).

The Israeli Prime Minister's Problem

Consider, now, the problems Israeli prime ministers face when contemplating building new Israeli settlements on land claimed by the Palestinians. If the prime minister draws significant electoral support from religious groups, as most Israeli prime ministers do, he or she knows that it is essential for their continued support to advance that constituency's interest in building settlements. Without pro-settler policies, it is difficult for any Israeli prime minister to stay in office. Given that Israel's proportional representation electoral system encourages small, fringe parties and given that the conservative Likud Party and the more centrist Kadima Party both rely on support from religious parties to muster a majority in the Knesset (Israel's parliament), we know that these parties cannot hold office if they alienate the pro-settlement religious party voters.

It seems that domestic office-seeking incentives promote a pro-settler policy in Israel. But by permitting the construction of settlements in certain areas, the prime minister makes striking a peace agreement with the Palestinian leadership much more difficult. Indeed, in the fall of 2011, Palestinian prime minister Mahmud Abbas went to the United Nations to petition for Palestinian statehood after he concluded that negotiations with Israel on a so-called two-state solution were never going to come to a positive conclusion. Israel's refusal to stop the construction of settlements not only reduces the opportunity to negotiate peace; it also increases support for more extremist Palestinian groups, such as Islamic Jihad and Hamas, that deny Israel's right to exist and so advocate a one-state, Palestine, solution on their terms. But it does help limit the impact of domestic pressure on Israel's leadership and it does open the door to Israel's government countering Palestinian maneuvers by defining a two-state solution on Israel's terms. The Israeli leadership might just draw a map of the territorial boundaries of Palestine and say that Israel no longer will administer those lands, thereby

imposing its own two-state solution.

To the extent that short-term electoral considerations escalate tensions with Hamas, Islamic Jihad and other hard-line groups, Israel's policy raises the risk of war. But accommodation of hard-liner or even moderate Palestinian demands very likely increases the odds that the Israeli prime minister's government will be deposed by a vote of no confidence and replaced by an administration that will not thwart the expansion of settlements. This is exactly the sort of conundrum that is at the heart of difficult international political choices. War would be hell for all concerned, and the end of settlements would be hell for an Israeli politician hoping to become prime minister. And no less, recognizing Israel's unconditional right to exist would promote peace on the Palestinian side but would be hell for anyone who must worry about retribution from groups like Hamas.

Israel is a small country that has lost thousands of its young men and women to war and to terrorism. Palestine is a nascent, even smaller country that has lost an even larger proportion of its population in its struggle against Israel. This is a high price indeed for each side. Such a price will cause a democratically elected prime minister to think twice before pursuing policies that risk such losses in the future. Israeli leaders are, in a sense, backed into a difficult corner whatever they do. If they tear down settlements, they may diminish conflict with the Palestinians (or it might escalate, seeing that their pressure is being effective) but at the price of losing the domestic support they need to carry out such a settlement policy. If they fail to tear down settlements, they risk cross-border violence with Palestinian groups such as Hamas and Islamic Jihad, but they retain the domestic political support that they must have to stay in power. Herein is a coordination problem in spades. Almost certainly all parties to the dispute want a peaceful settlement more than they want war but they cannot agree on the contents of such a settlement (Fearon 1995). The benefits to each side—a distribution issue—of alternative prospective agreements differ markedly. Faced with a tough distribution problem they find it hard to work out a deal all can accept.

We might think of the problem in highly simplified form as an example of a well-known, two-player game called chicken. In this game, the two players must each choose whether to swerve, avoiding a violent collision with the other, or to go straight ahead, holding firm to their preferred policy. [Table 2.1](#) shows the Israeli prime minister's choices as the two rows and the Palestinian Authority's prime minister's choices as the two columns. They

are assumed to be playing chicken. Whoever swerves is chicken, meaning he is unwilling to pay the price for standing up for what he and his supporters want, but if both go straight ahead, a collision is inevitable and that costs everyone dearly.

The numbers in [table 2.1](#) tell us how valuable it is for Israel’s prime minister (the first number in each cell) to go straight (continue to build settlements) or to swerve (back down by compelling settlers to withdraw from territory likely to be ceded to the Palestinians). As we can see, the value of his action depends crucially on the action chosen by the Palestinian prime minister. The Palestinian prime minister’s choices are presented as symmetric in value, but that is not necessary to make the point here. He can go straight (refuse to recognize Israel until Israel grants his demands) or swerve (back down from the demand to have a right of return, to control Jerusalem, and to return to the pre-1967 borders). As we can see, the value of his action depends crucially on the action chosen by the Israeli prime minister. The Palestinian prime minister’s payoff for swerving or going straight is the second number in each cell. That each decision maker’s payoff—his net costs and benefits—depends on what the other does is the essence of any strategic situation. Neither player determines his reward (or costs) alone. In this case, although the exact values are not important their relative size is. The larger cell values correspond to a large net gain (benefits minus costs). We can see, for instance, that either player would like the other to swerve while he goes straight. That combination is worth 5 points to the player who goes straight. It is worth –2 points to the player who swerves, but even so, each player is better off swerving when the other goes straight than if both go straight (worth –10 points to each), resulting in a violent collision.

TABLE 2.1

Chicken: A Stylized Depiction of the Palestinian-Israeli Conundrum

		Palestine's Prime Minister	
		Swerve	Go Straight
Israel's Prime Minister	Swerve	1,1	-2,5
	Go Straight	5,-2	-10,-10

We will learn how to solve strategic situations like this in [chapter 4](#). For now, the important thing to realize is that if each player has a good idea of what the other will do then one will swerve and the other will go straight; that

is, in political terms, some concession will be demanded and granted, but if they do not share a common conjecture about how the other will play the game (Morrow 1994a, 2002; Aumann and Brandenburger 1995), then it is possible that—not being confident of what the other is going to do—they will sometimes both choose swerve and live to fight another day and sometimes they will both go straight at enormous cost to everyone. Although this is a greatly simplified illustration, the point is clear enough. Each is better off if the other player swerves (gives a concession), but both are worse off if, in pursuing the benefit of being the only one to go straight they both end up going straight (colliding in war, for instance).



Palestinian president Mahmoud Abbas speaks about his bid for statehood recognition at the United Nations during a televised speech in the West Bank city of Ramallah on September 16, 2011. Abbas later demanded full membership of the United Nations when he spoke before the General Assembly a week later. The decision to pursue full membership reflects his efforts to assuage his constituents frustrated with failed negotiations but it also set up a diplomatic clash with Israel and the United States.

In simplified form, this is not a bad portrayal of the troubling history of the Israel-Palestine dispute. Sometimes one or the other offers up some concession (one goes straight while the other swerves), sometimes both

swerve, avoiding a collision but also avoiding progress, and every so often they both plow straight ahead, resulting in violent clashes.² As we will see, the selectorate theory will help us understand that the domestic political costs of “swerving” may be too great for either to take the risk with any regularity, resulting in the deadlocked dispute that we can all observe.

Certainly the balancing act that foreign policy leaders such as Israel’s prime minister and Afghanistan’s rulers must perform—trying to achieve their goals while holding on to power—is more difficult than the comparable act of their purely domestic politics counterparts (a city mayor, for example).

WHO AND WHAT TO STUDY IN INTERNATIONAL AFFAIRS

The policy problems confronted by the leader of the Palestinian Authority and Israel’s prime minister or the Taliban and Afghanistan’s leaders illustrate the four broad categories of problems that arise in international affairs: (1) coordination, (2) distribution, (3) monitoring, and (4) sanctioning. Coordination entails finding ways for states or leaders to act together in pursuit of common objectives. Neither the Israelis nor the Palestinians want to collide; they would all like to coordinate on peace. The problem is that sometimes coordination comes at a price in terms of how costs and benefits are distributed. This is certainly true in virtually all disputes. Distribution concerns the allocation of scarce goods among citizens, leaders, and states. Solving distribution problems can be difficult. That is, of course, the purpose of negotiations but negotiations cannot always find a mutually acceptable compromise. After all, even if the Israelis and the Palestinians share an interest in peace that does not mean they share an interest in peace on the same terms. The terms are the distributional problem—who gets what matters hugely in this and all other disputes.

Even when disputants settle on an agreement, there are tough problems ahead. US president Ronald Reagan was fond of saying about his negotiations over arms control treaties with the Soviet Union that we should “trust, but verify.” That is, just because someone promises to do something doesn’t guarantee that they will follow through. It is important to monitor their actions. Monitoring involves putting into place the means to detect whether one or another leader or state has cheated on an agreement.

Monitoring can be exceptionally hard to do since cheaters have incentives to hide their actions or to explain them away as unintentional violations. What is more, it is very hard to get signatories to agreements, let alone to informal arrangements, to agree on appropriate punishments when **cheating** is detected. Of course, the agreement can be nullified, but that might sometimes be seen as too costly a solution. Sanctioning rules for punishing noncompliant behavior often represent one of the thorniest problems in treaty enforcement. Sanctioning concerns punishing cases of cheating and is always susceptible to the parties deciding to renegotiate their agreement because punishing the cheater can be costly for the compliant signatory or signatories too.

These four generic issues are at the core of cooperation and competition, and they arise in one form or another in every aspect of international politics. Much of what is challenging about international affairs revolves around how to cope with various combinations of these four issues. For example, why do nations go to war? Some argue that wars are fought to gain territory, to acquire wealth, to impose policies, or to spread values. Each of these is an argument involving distributional issues between rivals. Whether allies can be counted on to help out in time of war often is a question of coordination, distribution, and monitoring. Sanctions encourage compliance—as do rewards (distribution). Sanctions function as the “stick” and rewards are the “carrot.” The production of parts, such as automobile components, electronics, or textiles, in one place and their assembly in another generally involve difficulties in coordinating decisions across multiple governments. How this coordination is achieved is an important problem in international trade relations. Protecting endangered whales or wild salmon as they swim from the territorial waters of one state to the territorial waters of another or even as they swim in the open ocean involves problems of both coordination and distribution. What is more, it can be very difficult to monitor the exploitation of resources (for example, commercial fish or hydroelectric power) that can move from jurisdiction to jurisdiction. Whether one country’s fishermen have overfished in international waters can be difficult to detect and risky and costly to punish. All of these problems are addressed more thoroughly in section III—Peace—in this volume.

International treaties provide a common means of addressing these problems and represent an important feature of international efforts at cooperation. Trade disputes and wars are the product of failed efforts to reach

cooperative understandings. A common source of dispute between neighboring states, for instance, involves disagreements over the benefits derived from river systems that flow across national borders. If the upstream government dams a river, for example, the downstream country may be deprived of vital energy, drinking water, food from fish and fowl, and recreation areas—all of which can precipitate conflict. Indeed, water supply is a major issue influencing relations between Israel and Syria over control of the Golan Heights and was—until it was resolved with the help of the United Nations—one significant source of conflict between India and Pakistan over Kashmir.

Domestic politics adds critical layers of complexity to the problems of coordination, distribution, monitoring, and sanctioning. In 1988, Robert Putnam observed a problem that can be thought of as fundamental to our understanding of international politics—namely, that we cannot really understand international negotiations without both understanding what negotiators can persuade their domestic constituents to accept and what they can convince their foreign counterpart to agree to. When one must convince both a foreign counterpart and domestic interests to accept a negotiated settlement there is the possibility that the negotiator is misrepresenting either her domestic constituency's bottom line or the foreign counterpart's bottom line. Negotiation and the risk of conflict escalation, then, become susceptible to the **principal-agent problem** and associated domestic asymmetries in information, as well as to questions of “national” credibility.

The principal-agent problem highlights an important implication of Arrow's theorem. Leaders are, so to speak, hired by their citizenry to represent the people's interests. In that sense, leaders are employees—agents—expected to do what their boss—their principal, “we the people”—want them to do. But leaders often have lots of advantages over the people they ostensibly serve. Leaders tend to have much more information at their disposal about the issues of the day. Leaders often get to choose the rules by which they translate the wishes of their principal—the people—into national policy. Hence, leaders are prone to do what is good for them and to sell the idea to others that the leader is doing just what the others want. This, in a nutshell, is the principal-agent problem. We cannot be sure whether our leader is misrepresenting a situation for her own advantage or whether she is doing the best she can for us. She typically has lots of information that we lack, and in fact, our leaders may be the only source we have for information

about foreign controversies. As a result, we often just don't have enough information to sort out whether our leaders are faithfully serving our interest—doing the best they can for us—or are twisting information for their own advantage. The great asymmetry in information and control over the rules for translating our wants into public policy really make it easy for agents to tilt choices their way. And that means we need good mechanisms to detect whether our leaders—our agents—are serving our interests or not. We may not be able to find rules to guarantee that our agents do what we want, but we may be able to find mechanisms to increase the odds that our welfare is made better, rather than worse by our agents even if we cannot make our welfare as good as possible. We at least hope our leaders make choices that are Pareto improving whenever possible. That is, we expect them to make none of us worse off and at least some of us better off but we just cannot be sure.

Associated with the principal-agent problem, we as citizens may face another generic problem tied to monitoring and sanctioning our leaders. We rarely choose leaders because of their foreign policy acumen. Rather, leaders—at least democratic leaders—are more often selected because of expectations about their skills in managing the national economy or other purely domestic issues. James Carville, a close adviser to President Bill Clinton, was fond of reminding everyone in the Clinton 1992 campaign and then during his presidency, “It’s the economy, stupid.” And yet every national leader, whether chosen because of his or her expected economic capabilities, personal charisma, or what have you, must inevitably also deal with foreign affairs. Since they were not chosen for this purpose there is a real risk of adverse selection. That is, the incentive structure for picking leaders may result in the choice of leaders who are incompetent when it comes to foreign policy. Often, however, it is difficult to tell whether foreign policy failures are the result of incompetent tactics and strategies or the result of unfortunate and perhaps unforeseen external circumstances like a natural disaster or a downturn in the business cycle. We want to remove incompetent leaders, but we also want to be careful not to remove a competent leader simply because he or she was the victim of misfortune. But it is a hard monitoring problem to tell some degree of incompetence apart from some degree of bad luck. All of these domestic problems, as we will see, shape foreign policy and international affairs in ways not imagined by theories that treat states as unitary actors. And it is in tackling and sometimes solving these problems that we will come to grasp what international politics is all

about.

The Strategic Perspective

In the strategic perspective, to borrow a phrase, all politics is domestic. Our earlier examples underscore the real risks that leaders face as they navigate the domestic pressures of foreign policy decisions and illustrate that no leader is fully insulated against the repercussions of his or her decisions. The examples also demonstrate that understanding exactly who the domestic constituents are—and what they have at stake—is crucial. Let's set the stage for that discussion.

Politics is the domain of competition among groups and individuals for special advantages, particularly over control of power and wealth. Such political competition involves the risk of punishment as well as the opportunity for rewards for one's actions. In international politics, leaders continually risk being punished by foreign adversaries and domestic foes. In international affairs, there are few institutions comparable to domestic police forces and courts that effectively regulate how nations relate to one another. Unlike domestic affairs, international relations involves only a few commonly accepted means of regulating behavior and even fewer and weaker means to enforce accepted rules and norms of action. These few means of enforcement are reflected in international law and in international organizations designed, in principle, to regulate behavior and then to monitor compliance and sanction noncompliance. Alas, lots of evidence, much of it discussed in [chapters 7 through 9](#), has been compiled that shows international law and international organizations tend to be pretty ineffective when the stakes are high and national leaders are disinclined to abide by common norms of action.

With so many potential problems confronting leaders, what are they to do? For one thing, all political leaders must figure out how to answer a straightforward question: What am I to do if I want to keep my job and my head? This is no idle question. The answer to it goes to the very heart of politics.

One seemingly obvious answer to this question is that all leaders need to seek peace and prosperity for their country. Peace and prosperity, after all, enhance the national well-being. Don't they also promote the popularity and longevity of the leadership? As it turns out, peace and prosperity are good for

all leaders, but they are not necessary or even equally important for all leaders. Kings and dictators have relatively little need for peace and prosperity to retain power. To be sure, neither peace nor prosperity harms them; they just are not essential. Consequently, it is likely that the mechanisms by which kings and dictators rise to power do not involve good selection criteria when it comes to promoting peace and prosperity. Indeed, kings and dictators may confront a moral hazard: they might be better off promoting corruption and cronyism than they are with peace and prosperity.

Presidents, at least in democracies, can hold on to office a lot longer if they preside over peace and prosperity than if they do not, but they rarely hold on to power as long as kings and dictators, even when—maybe even especially when—the latter create war, poverty, and misery for most of their subjects. So democrats are less likely to face a moral hazard; they are less likely to do better by making their citizenry miserable than they are by improving their citizenry's quality of life. But that doesn't help them escape the problem that they just might not be all that competent at the peace side of peace and prosperity: the adverse selection problem. And even if they are, still it is exceptionally hard—for reasons explained soon—for democratic leaders to keep their job for long even if they are not term limited.

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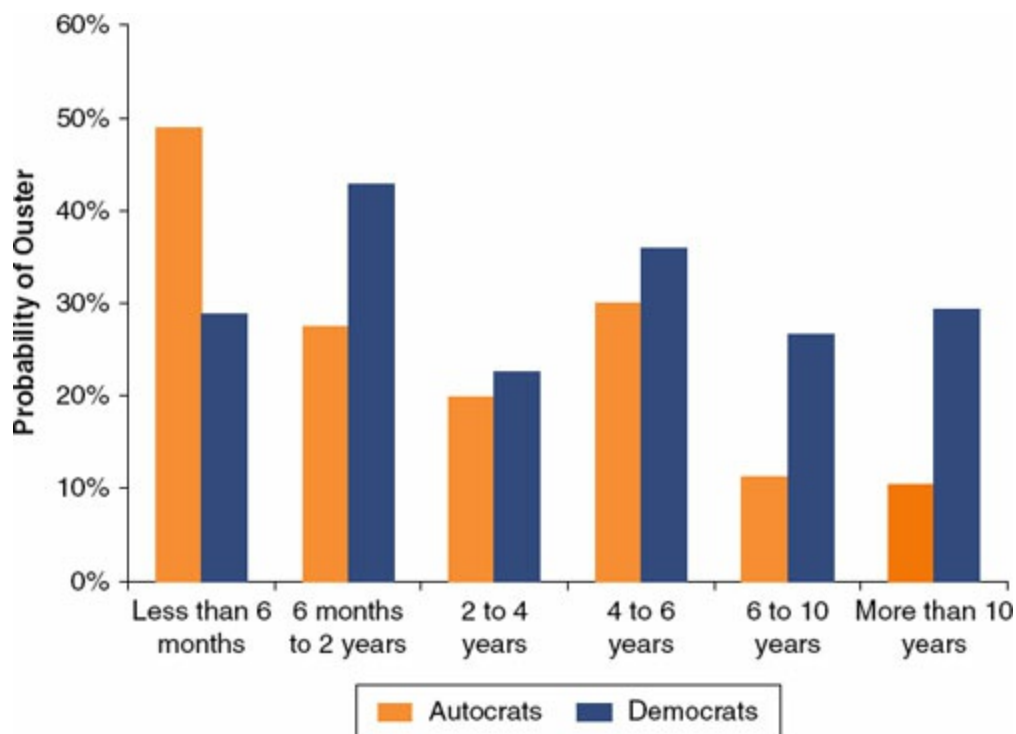
If you were king, president, or dictator, what might you try to accomplish? How would you allocate scarce resources to best perform your job and to prevent yourself from being removed from office? What would your friends try to do? Are the answers different depending on whether your friends—or you—aspire to be king, president, or dictator?

Few democratic leaders last in office as long as autocrats—at least once autocrats and democrats have made it past the initial year or so in office. Over the past 200 years, democratic leaders have remained in office for an average of less than four years; in contrast, autocrats have remained in office an average of nearly nine years. [Figure 2.1](#) shows the risk of losing office over time depending on whether a leader heads a democracy or an autocracy (as these terms are commonly used).

The vertical axis plots the probability of being ousted from power. As we

can see, in the first few months in office, autocrats are at greater risk of being thrown out than are democrats—we will define these terms precisely in a bit—but the higher risk for more dictatorial regimes only lasts a short time. In fact, the risk for democrats is always higher than for autocrats after those first few months, and the autocratic survival advantage keeps growing the longer a leader has been in power.

FIGURE 2.1 The Risk of Ouster, Time in Office, and Type of Regime



Source: Bueno de Mesquita and Smith, 2011.

Autocratic leaders suffer relatively few punishments for creating famine, sickness, and misery at home or military defeat abroad. They seem relatively unconcerned with whether or not peace and prosperity are achieved. That is why, as we see in the coming chapters, different types of governments adopt different approaches to trade, foreign investment, economic assistance, human rights, sanctions, military intervention, peacekeeping, and even warfare. To understand these differences, we need a perspective that recognizes that the institutional framework within which leaders operate is important in shaping what they do and whether they remain in office or get

overthrown. Several important insights into international politics that rely on the strategic interplay of domestic and foreign affairs have been developed. Let's take a look at some of those ways of thinking and then we will zoom in on the selectorate theory for a more detailed look.

Domestic Theories of International Affairs: A First Look

Strategic models and the empirical assessments that follow from them allow us to evaluate policy choices as parts of behavior induced by domestic institutions. These models assume that foreign policies are chosen for their compatibility with the motives of national leaders who want to stay in power and so make choices that are mutually beneficial for themselves and those who can influence their hold on power. The actions of leaders are, in other words, **incentive compatible** with their desire to stay in power and control revenue allocation. These leaders' motivations may not be—and often are not—compatible with many notions of their nation's interest. Domestic institutional structures (such as the competitiveness of leadership selection or the extent of government accountability and transparency) help shape the interplay of leaders, elites, and ordinary citizens, resulting in policies that create the contours of the international environment, contours that other approaches take as given rather than as factors to be explained.

For instance, we know that democratic leaders make decisions about when to go to war depending on where they are in the election cycle, what the electoral rules are under which they operate, and other aspects of domestic political circumstances (Gaubatz 1991; Fordham 1998, 2002; Smith 2004). Autocrats are not subjected to these constraints; their war-timing decisions seem more dependent on things such as the weather and terrain than on domestic political arrangements.

War timing is not the only feature of war that differs across regime types. James Fearon (1994), Alastair Smith (1998), and others suggest that democratic leaders are more likely than autocrats to carry out the foreign policy threats they make because of their domestic political **audience costs**. The idea, briefly, is that democrats suffer from a decline in their chances of being reelected if they fail to act on their most important, threatening international pronouncements. Saying “there will be dire consequences” is apparently less consequential when the one making the threat is an autocrat

instead of a democrat.³

Kenneth Schultz (1998, 2001) shows another feature that follows from having a domestic audience, especially in a democracy, where there is at least one opposition party eager to oust the incumbents and take their place. He demonstrates that the existence of a domestic political opposition limits democratic foreign policy adventurism in ways not experienced by non-democrats (i.e., meaning leaders in a democracy and not Democrats per se as in leaders of the American Democratic Party). That is, because of the risk of losing office following an unsuccessful foreign policy adventure, there is a selection effect. Democratic leaders, facing a legitimate and vocal opposition, are less likely to select risky foreign policies than are autocrats whose countries are otherwise comparable in terms of their power to shake up the world. As we see in [chapters 6 and 14](#), democrats are much more likely to win the wars they start than are autocrats, not just because they are better at fighting wars (they may or may not be) but because, as reasoning such as Schultz's highlights, they cannot afford to lose if they hope to get reelected. Therefore they are more selective about the fights they pursue and they try harder to win than their autocratic counterparts.

Schultz's reasoning offers a compelling explanation for the appearance, and disappearance, of a bipartisan American foreign policy. The argument, briefly and somewhat stylized from Schultz's rigorous account, goes as follows. Typically, American foreign policy is thought of as nonpartisan and as driven by efforts to advance the national interest. Rarely, however, is there much effort to explain why partisanship should not be as important in foreign policy decisions as it is in the routine domestic choices of political leaders. In defense of a nonpartisan foreign policy, we must acknowledge that we infrequently observe deep divisions between the major American political parties when it comes to the "big" question in foreign policy—the question of war or peace. From this observation, casual observers leap to the inference that, at least on the big questions, foreign policy is, indeed, bipartisan or nonpartisan.

But there is an alternative explanation for the observed cooperation of the major political parties during times of war or international crisis that is, I believe, far more compelling. The American political system, being democratic, forces leaders to rely on large voter coalitions for support. This means that elected officials are held accountable by their constituents for the policies they deliver. If they hope to be reelected—and they, or their political

party, almost always do—then they must pursue policies that satisfy their voters. But their political opponents also hope to be elected. They want to depose the local representative or senator or president and win that job for themselves. To do so, they need to persuade enough voters to switch from the incumbent to them in the next election. Similarly, those already in office but not in the majority must be concerned to back policies that their voters like enough to reelect them. The president and his foreign policy advisers understand this very well. The members in the majority party in the House of Representatives and the Senate likewise understand this very well.

If the incumbent party and its leaders select a foreign policy that is unpopular or that is believed will be unsuccessful, then they can anticipate that the other party's leaders and candidates will see an opportunity to win votes by opposing the majority party's foreign policy. When a foreign policy idea is discussed, the early trial balloons that measure public opinion provide a useful means for the incumbent party to discover whether there is likely to be significant opposition. Such opposition is a signal that the opposition party (or opposition parties in many proportional representation parliamentary systems) believes it can gain an electoral advantage by speaking out against the policy being contemplated. This early opposition does not occur if the party that is out of power believes the president's approach to a foreign problem is likely to be popular and successful. Thus, the president tries to choose foreign policies, especially when it comes to highly visible policies such as war and peace or free trade or protectionism, that are likely to succeed and that, therefore, are likely not to prompt a well-organized opposition by the minority party.

If the president miscalculates or the policy unexpectedly backfires, there is opposition from the rival party. Bipartisan support falls away. This is exactly what happened with the US policy toward Iraq between 2003 (when the policy commanded the overwhelming support of Republican and Democratic members of Congress) and the run-up to the 2008 election. The bipartisan policy became distinctly partisan as the results in Iraq failed to match expectations. Most of the time, however, war policies prove fairly successful or war is avoided in anticipation that it will prove costlier politically than is justified by the expected benefits. The result of such selectivity in choosing policies is that we observe little partisanship on questions of war and peace, not because of nonpartisanship but because these policies are chosen to avoid opening the way to electoral success by the party

not in power (Fearon 1994; Smith 1996; Schultz 2001).

None of the insights discussed so far can be true from a realist perspective because from that point of view differences in the domestic features of states are irrelevant to fundamental actions in the international arena. But it is just such observations as these that make it beneficial to look within states to understand international affairs.

Now I introduce the selectorate theory of politics, an example of the strategic perspective. It shows how variations in the size of a polity's political institutions help explain many facets of international interactions, ranging from warfare capabilities to the uses of foreign aid and military intervention to encourage or stymie democratization and an assessment of the so-called **democratic peace**. The selectorate theory also suggests why it is that democracies are willing to fight wars of imperial and colonial expansion and are even more prepared than autocrats to overthrow foreign rivals.

SELECTORATE THEORY

The selectorate theory represents one version of the strategic perspective. In selectorate theory, leaders build a coalition of supporters among the selectorate. The selectorate (denoted as S) consists of those who have at least a nominal say in choosing leaders and are eligible to become members of a winning coalition. The winning coalition (referred to as W) is the subset of the selectorate without whose support an incumbent cannot be sustained in office. Leaders attempt to retain the loyalty of their supporters by giving them more benefits than any domestic political opponent can credibly promise to deliver. Rewards come in two varieties: (1) **private goods** and (2) public goods.⁴ Private goods are rewards that benefit only those who get them—that is, members of the leader's essential coalition of supporters. Examples might include privileged access to government contracts, exploitation of a black market, or protection against prosecution. Public goods are government policies and programs that all people benefit from whether they are in the leader's inner circle or not. Examples of public goods include national defense, free speech and free assembly, public parks, equal protection under the law, and free access to education.

Leaders pay for private and public benefits by taxing people's labor, exploiting natural resource wealth (for example, oil or diamonds), and by receiving foreign economic assistance. Any revenues that do not have to be

spent on maintaining the loyalty of the incumbent's essential backers represents money that can be spent, saved, or invested at the leadership's discretion. The more discretionary resources a leader has, the better his or her chances of surviving in office. We will see why as we proceed.

The selectorate theory, explained more fully shortly, can be distilled down to the statement of five rules that govern leader survival. Those rules relate to the sizes of the winning coalition and the selectorate, the tax rate, and the amounts spent on public and private benefits. They are designed to identify the range of actions that are incentive compatible for leaders who want to survive in office and secure discretionary control over resources allocations. The selectorate theory's five rules of governance are as follows:

1. Depend on as few key people to keep you in power as possible.
2. Draw that small group of essential coalition members from as large a pool of people as possible.
3. Tax people as much as possible subject to the constraints that they continue to work and pay taxes rather than take siestas and they are not made so miserable that they decide it is worthwhile to risk revolting rather than continue to live with the existing political system.
4. Reward your essential backers just enough so they stick with you rather than shopping around for a new leader who might do more for them.
5. Don't spend resources on benefiting the general population when those resources are needed to keep the loyalty of the members of your essential coalition.

These five rules can be tied together through the logic of selectorate theory to give us some idea of how things work and why they work the way they do. For starters, when domestic institutions constrain a leader to require a broad base of support, as is true in most democracies, private rewards are an inefficient way to retain power (de Tocqueville 2000; Lake and Baum 2001; Bueno de Mesquita et al. 2003; Bueno de Mesquita and Smith 2011). Democratic leaders would have to spread these rewards across so many people that each would receive too little for the benefits to influence their loyalty to the incumbent. In such a situation, it is more efficient for leaders to rely on public goods as their best means to retain office. When political institutions compel a leader to depend on many supporters so that a bundle of

public goods is the reward for retaining the incumbent, the institutions of governance induce weak loyalty to the incumbent. After all, everyone benefits from public goods whether he or she supports the incumbent or not. Conversely, when a leader needs backing only from a few people to stay in power, the few are expected to be loyal both because they are well rewarded with private benefits and because they face a high risk of losing those privileges if a challenger topples the incumbent regime. Thus it is that resource allocations—including provisions for national defense—are induced in significant part by domestic political institutions rather than just by international compulsions, culture, or the luck of the draw in leaders. We will see this a bit more carefully stated shortly, but first let's lay out the fundamentals of selectorate theory.

Historically, we have spoken of categorical types of regimes, like democracies or autocracies. In practice, no two governments are alike. That means these categorical labels lump regimes together that may, in fact, differ markedly from each other. Israel's proportional representation democracy looks only superficially like Britain's first-past-the-post, winner-take-all parliamentary democracy, and neither of those looks much like the indirect election of presidents created by the Electoral College in the United States. So it is useful to move away from categorical labels and to develop a view of governing institutions (and the incentives they create)—that is, at least conceptually, continuous, allowing for fine distinctions as well as gross distinctions across regimes. Selectorate theory offers a way to do that.

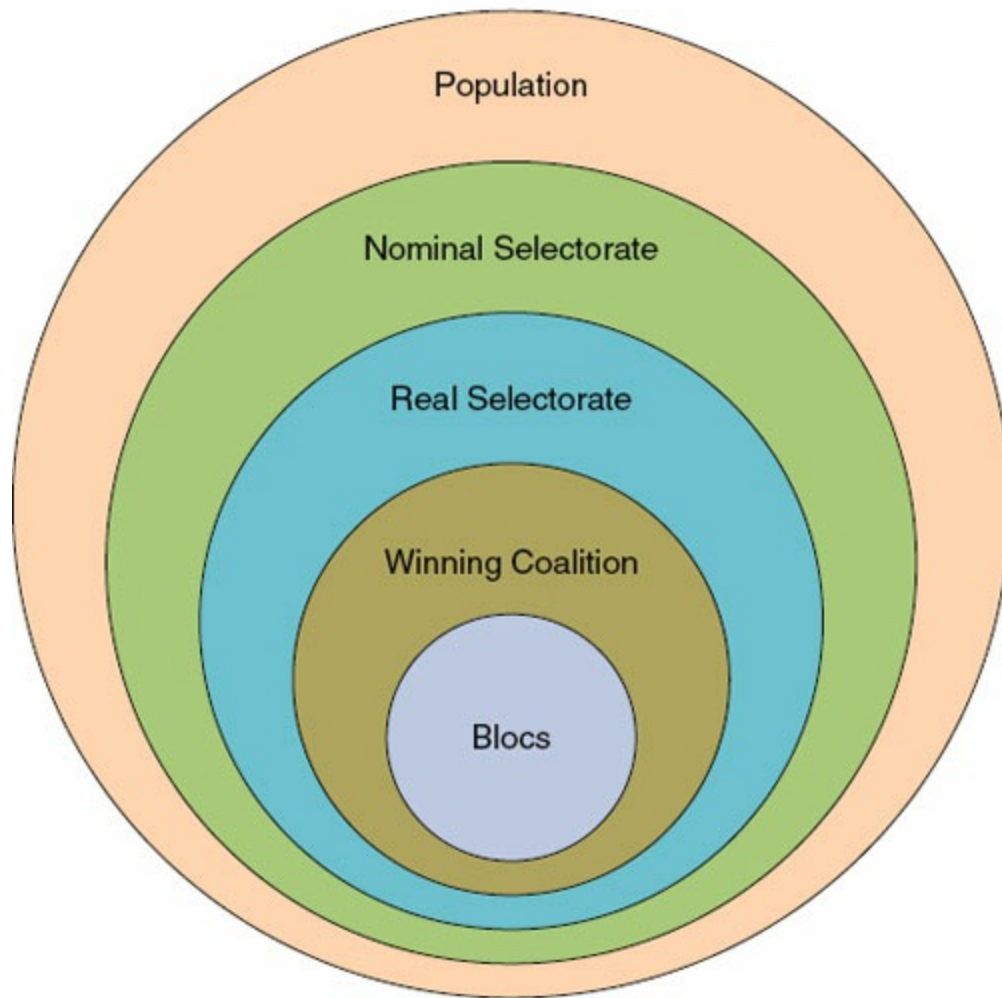
All political systems have two institutional characteristics that describe how they retain and select their leaders. The selectorate (S), as mentioned earlier, is the set of people in the polity who can take part in choosing a leader. The winning coalition (W) is the subset of the selectorate whose support the leader must retain to remain in office (see [figure 2.2](#)). Selectorates and winning coalitions may range in size from exceedingly small to exceedingly large, subject to the limitation that the winning coalition cannot be larger than the selectorate. For analytical convenience, I treat all selectors as having equal weight, allowing us to characterize the sizes of both the winning coalition and selectorate as numbers or fractions of the population of the state in question. If the size of the coalition falls below W , then the leader is vulnerable to being removed and replaced by a challenger who can create a coalition of his or her own of at least size W from the selectorate.

The sorts of governments that people generally describe as democracies

share in common that they have large selectorates and large winning coalitions, although the exact size of each varies with the extent of suffrage and the precise rules by which leaders are elected. One-party autocracies have smaller winning coalitions than democracies, although their selectorates may be large and, of course, of varying size. Monarchies and military dictatorships have both small selectorates and small winning coalitions, although again of varying size from place to place (see [figure 2.3](#).) When W/S is large, as in democracies in which both W and S are relatively large and in monarchies or juntas where both W and S are relatively small, then there is weak loyalty to leaders because the odds of being in the successor's winning coalition (the ratio W/S) is high. When W/S is small, as in a rigged election autocracy, then there is a strong **loyalty norm** that makes it easy for leaders to survive in power and exert great discretion over revenue as explained next.

FIGURE 2.2 Governance Institutions

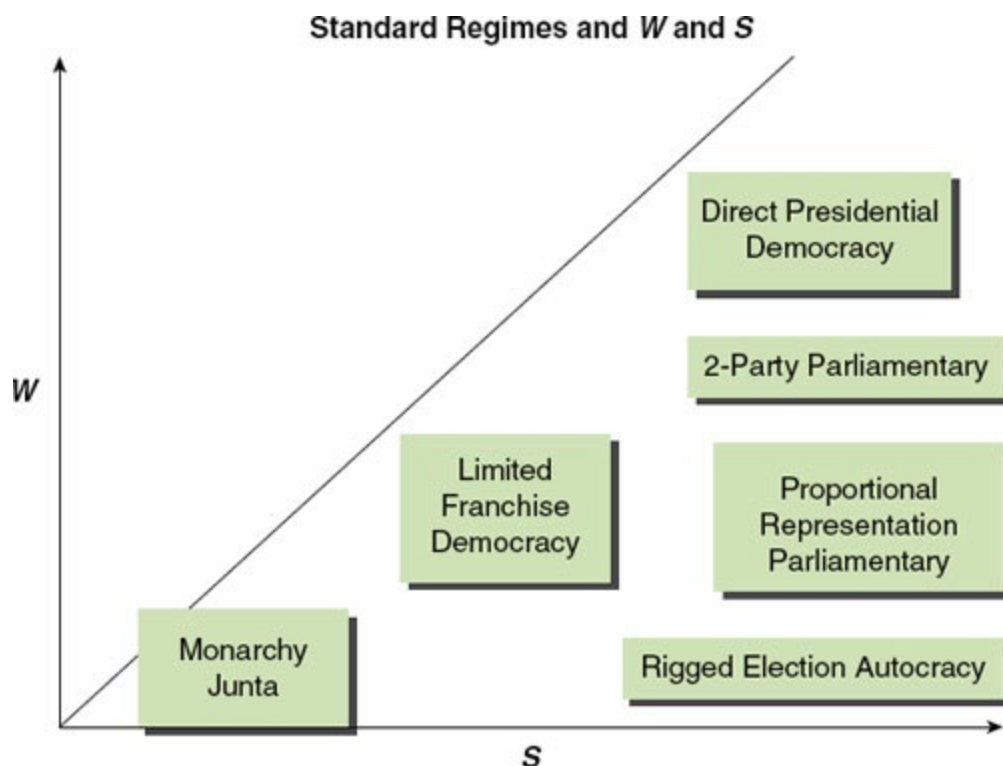
Governance Dimensions: Nested Selectorate Institutions



Let's look at a few real-world examples. In [figure 2.4](#), we can see the estimated sizes of the winning coalition and selectorate for ten countries in 2006 based on country expert surveys done by me and my colleagues as part of a pilot project that we conducted of these ten countries for the years 1955 through 2006. The figure illustrates some of the considerable variation in the size of these two institutions across countries and across ordinary classifications of regimes as autocratic (e.g., Syria and North Korea) or democratic (e.g., Russia and Venezuela). For example, China and Egypt both had winning coalitions with a size that was close to 0 percent of the adult population, yet Egypt back then had a larger *real* selectorate than China relative to their adult populations. This means that both regimes, as we will see, were heavily oriented toward private goods but that leaders had more discretion over revenue in Egypt than in China. All else being equal, then,

Egypt's then leader Hosni Mubarak had a better chance of remaining in power against an *ordinary* political challenge than did China's then incumbent president Hu Jintao. In fact, those expectations were structurally consistent with the facts and were contributors to the relative greater attraction of *revolution* in Egypt over China. You see, China enforces age-based retirement on even its most senior leaders, thereby limiting their terms; Egypt does not. Thus, disgruntled Chinese influentials could afford to wait out Hu Jintao (who is to retire in 2012) whereas Egyptians could not afford to count on term limits since there were none or a normal domestic political transition since that would not happen before Mubarak was near death (which, by the way, he was in 2011 at age 83). Their only way to create a change in leadership in Egypt was through coup d'état or revolution, topics we explore in depth in [chapter 12](#).

FIGURE 2.3 Standard Regime Types and Coalition and Selectorate Size



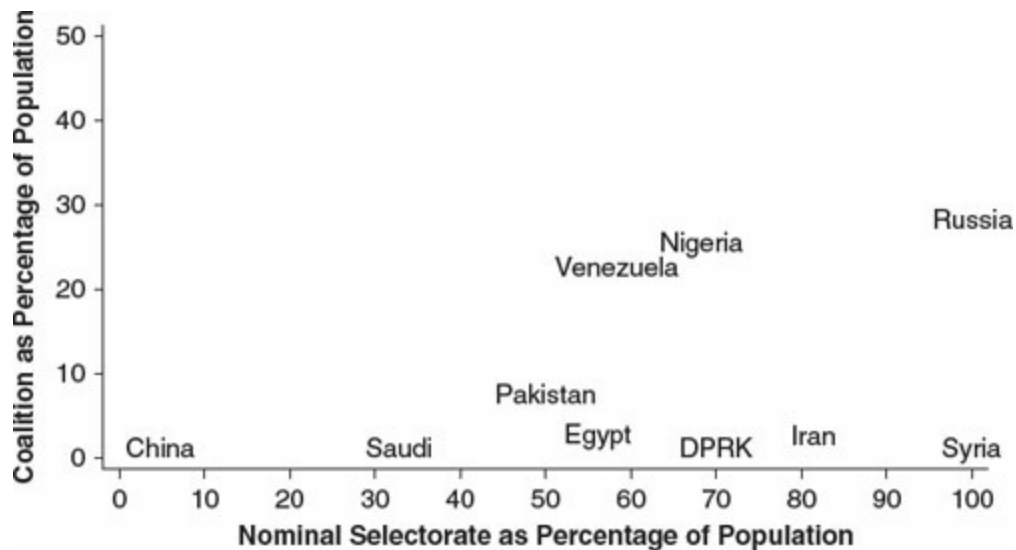
Both Egypt and China are highly corrupt societies, but China ranks 75 (out of 182) on Transparency International's 2011 Corruption Index⁵ and

Egypt ranks 112th (75 means better behavior than 112). Syria and Nigeria differ markedly from one another according to [figure 2.4](#). Nigeria has a smaller selectorate than Syria (controlling for the difference in the size of their populations) but depends on a much larger winning coalition. This means, according to selectorate theory, that the loyalty norm is stronger in Syria than in Nigeria (W/S is smaller in Syria). That makes the preparedness of the winning coalition's members to take extraordinary actions on behalf of the incumbent regime more robust in Syria than in Nigeria. Again, that's true. Much of 2011 in Syria was marked by brutal efforts to repress antigovernment uprisings by the Syrian regime of Bashar al-Assad. Indeed, so ruthless were the coalition's efforts to stop protests that the regime was even condemned by the Arab League, an alliance of Arab states that themselves have a long history of repressive, antidemocratic governance.

TRY THIS

Choose some countries that are not in [figure 2.4](#) and that have different forms of government. Work out the loyalty norm for each (i.e., W/S), and then find out online how corrupt the country was said to be by Transparency International (TI) around 2006 and again in TI's most recent corruption index estimates. Also see how long, on average, leaders have lasted in these countries (remembering that I have shown you only one year of data on coalition size and selectorate size), and see whether it is related to W/S .

FIGURE 2.4 Ten Countries in 2006: W and S



If we were to plot any one of these countries across the years from 1955 through 2006, we would also see that even when its categorical regime type remained the same in name year after year, the size of the selectorate and the coalition varied greatly. One benefit of selectorate theory is that it allows us to locate each and every government at a specific spot in the figure. When we are able to resist treating all democracies as if they had one and the same form of government even though their electoral rules make them look quite different from one another or understand more clearly the various forms of autocracy, junta, or monarchy, we are less likely to form mistaken expectations about the behavior of those states. In fact, we can make precise predictions about foreign and domestic policy choices by knowing the size of W and S , two variables that in principle (though harder in practice) can be measured with a high degree of accuracy.

Figure 2.4 highlights another important distinction. The selectorate theory makes predictions about actions based on the size of W and S , each itself determined by specific electoral rules and procedures (including there being no such rules or procedures). The size of the winning coalition, W , and the selectorate, S , are basic features of every society and, indeed, every organization. They do not vary without fundamental institutional changes. For example, changes in how much popular support a leader gets, say in an electoral context, has no bearing on the size of the winning coalition. To illustrate this point, take a look at Russia's location in figure 2.4. Its winning coalition is estimated to be about 25 percent of the electorate. Yet Russia's president, Vladimir Putin, won about 64 percent of the vote in Russia's 2012

presidential election, and United Russia, his supporting party, won 238 out of 450 seats in the Duma (the Russian parliament). Still, assuming an update of expert surveys would see Russian institutions as being much as they were in 2006, W is estimated to be 25 percent of S . That is because Putin and his prime minister, Medvedev, needed support from only half the members of parliament to get their legislative program through the Duma and, in a two-party race, each candidate needed only half the voters to support him to be elected, making the maximum minimal winning coalition in Russia 25 percent [0.5 (voters per seat) $\times$ 0.5 (number of seats)]. With more than two parties (and there were seven parties contesting the December 2011 Duma election), the actual minimal winning coalition required for power was smaller. Leaders may get more support than they need and indeed should be expected to get more once it is clear who is likely to win (Smith, La Gatta, and Bueno de Mesquita 2012), but they only need to reward those in their coalition, not everyone who votes for them. Furthermore, from the perspective of other world leaders who need to interact with Putin and formulate foreign policy with regard to Russia, understanding this basic dynamic is a powerful tool.

To illustrate the point further, consider two additional political systems. Whether an American president wins in a landslide (as Reagan did in 1984 and Clinton did in 1996) or squeaks by (as Bush did in 2000 and as John Kennedy did in 1960), the size of S in any election year is fixed by American enfranchisement rules and the size of W is fixed by the constitutional requirements for election to the presidency and state rules on how to aggregate votes, subject to variations in turnout. Similarly, whether or not the entire North Korean population comes out to cheer for Kim Jong-Un, his winning coalition (those getting private rewards), according to the experts surveyed, is between 9 and 250 people out of a selectorate that has been several million strong (or, more appropriately, weak).

Public and Private Goods: Who Gets Rewarded as W and S Change?

All political systems, as noted, produce both public goods and private benefits; it is the mix of the two that varies with selection institutions. As the size of the winning coalition increases, leaders shift that mix away from the provision of private benefits and toward the provision of public goods (see

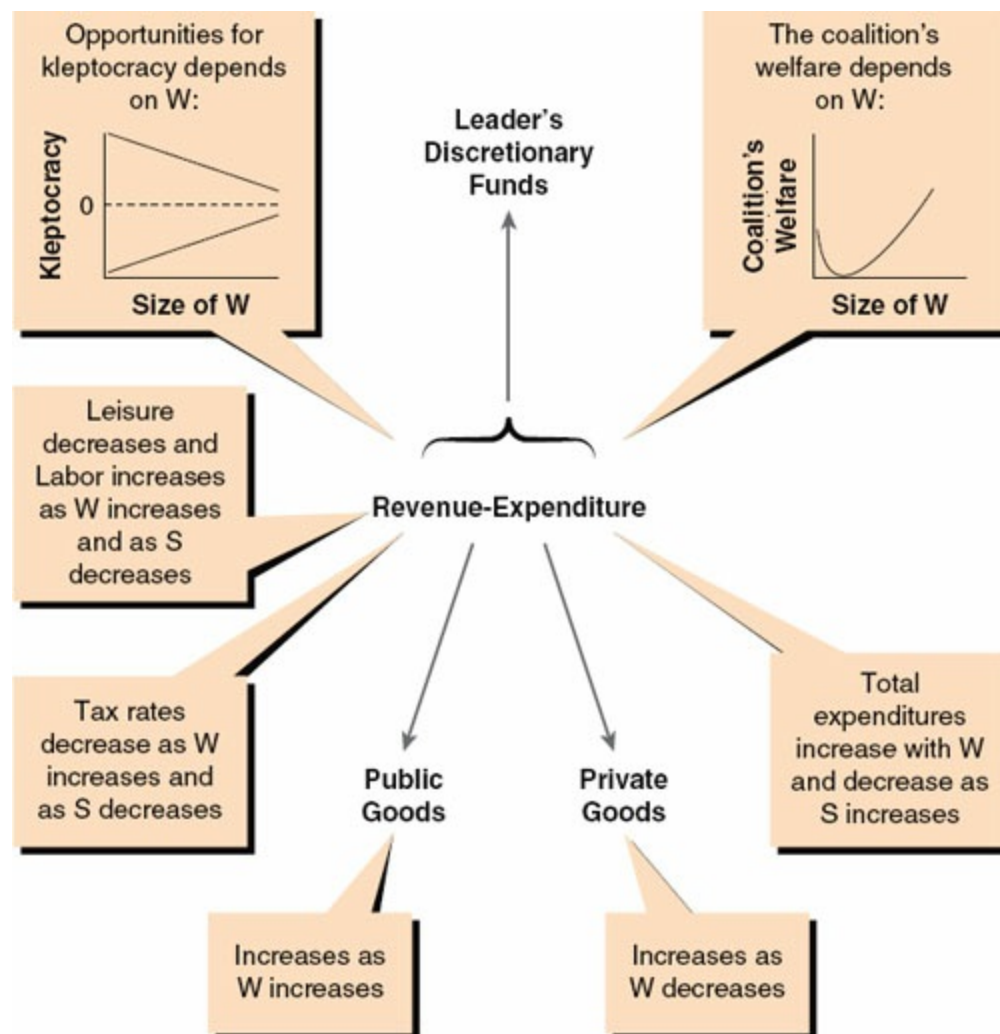
figure 2.5). This is not because those who depend on a large coalition are necessarily more civic minded. Rather, a larger winning coalition means more supporters to please, spreading out private benefits and making public goods a more efficient way for the leader to retain the support of his winning coalition. That is why leaders who answer to a large winning coalition will predominantly produce public goods to hold their loyalty.

As the size of the winning coalition increases, the mix of goods distributed to the coalition shifts from private to public. To see more precisely why small-coalition regimes emphasize private goods and large-coalition governments emphasize public goods, let's construct a simple numerical example. Imagine two countries, called Tyrantia and Democratia. Both have a population of 2 million people, both have elections, and both have an eligible electorate (the selectorate) of 1 million people. Tyrantia is governed by a former general who relies on 100 high ranking officers, senior civil servants, and key family members to maintain control of the government. Tyrantia's elections are rigged. Democratia is governed by a president who is elected in a runoff system, meaning that she must garner 50 percent of the votes plus one to defeat her adversary. Votes are counted honestly in Democratia. To keep the arithmetic simple, I am going to ignore the "plus one" and act as if Democratia's president needs 500,000 votes (half of the electorate). Both Tyrantia and Democratia have government revenue equal to \$1 billion and each taxes each of its citizens \$500 per year.⁶ Tyrantia's leader faces opposition from a colonel who hopes to overthrow the general and take over the government. Democratia's president likewise faces a rival who hopes to defeat the president in the next election.

Imagine that the leadership in each country spends all of its revenue on trying to keep its coalition loyal. Each individual member of Tyrantia's winning coalition of 100 members will get his or her share of \$1 billion, or \$10 million each on average. Democratia's coalition of 500,000 will get \$2,000 per head in government benefits. Now to be sure, \$2,000 per essential voter in Democratia is not terrible, especially when you remember that the per capita tax take of the government is \$500 (2 million citizens and \$1 billion in revenue). Each of Democratia's president's voters got back four times what they paid. Of course, as we will see, they get it back in effective public policies and not primarily in private rewards but let's wait for that reasoning for a moment. In Tyrantia, each citizen paid the same \$500 tax as is true in Democratia, but in Tyrantia, the 100 critical supporters of the

government received an astounding \$10 million in return. That is quite a redistribution of money from the 2 million citizens to the 100 coalition members. That difference in the magnitude of rewards, holding all else constant, gives us a clue as to why small-coalition rulers—dictators—find that their supporters are fiercely loyal while large-coalition, democratic regimes frequently throw out the incumbent and bring in a new group of leaders with new policy ideas.

FIGURE 2.5 Selectorate View of Policy Choices



Source: Bueno de Mesquita et al. 2003.

Of course, leaders may not just redistribute hard cash to their supporters and, in fact, we rarely see that happening in democracies. Let's see why. To

do so, let's say that each "unit" of public goods—the government allocations to education policy, health care policy, defense policy or what have you—has a price of p . Furthermore, let's recognize that the quantity of private goods a regime can distribute depends crucially on how many people must be rewarded. That is, the implicit price of a unit of private rewards is equal to the size of the winning coalition. Okay, a teeny bit of algebra and we will see something fundamentally different about democratic and autocratic governments. Imagine, as we just did, that a big and a small-coalition regime, Democratia and Tyrantia, have equal revenue but this time instead of assuming an arbitrary amount of revenue let's just say they have R dollars of revenue that can be spent on a mix of public goods (I'll call those g) and private goods (I'll call those z). If the government is restricted to spending no more than its total revenue (R), then we know the following: $R \geq pg + Wz$; that is, the total spent on public (pg) and private goods (Wz) cannot exceed the **budget constraint** defined by the government's revenue, R . Now with the slightest bit of algebraic manipulation we can discover exactly how spending on private benefits varies with the size of the winning coalition. If the entire budget is spent, so that $R = pg + Wz$ then $R - pg = Wz$, which means that each coalition member's private goods benefits can be determined: $z = (R - pg)/W$.

Notice that the value of private goods, the benefits that go only to members of the winning coalition, get smaller as the size of the coalition gets larger (dividing by a larger W of course drives the fraction $(R - pg)/W$ closer to 0 than does dividing by a smaller value of W , the size of the winning coalition). Thus, small-coalition governments—autocracies, monarchies, and military juntas—allocate more private benefits in their mix of public and private goods than do large-coalition government. Democracies, being dependent on a larger coalition than various forms of dictatorship, focus more on public goods provision than autocracies. Our simple calculations thus far mask some deeper distinctions that will be important as we study the foreign policies of governments so let's delve more deeply into the logic behind the selectorate perspective.

The Value of Being Needed When W/S Is Small

Let's continue our numerical example to clarify the choice between favoring public or private rewards as a function of coalition size. Remember that Tyrantia's leader has \$1 billion in revenue and governs a polity with a

selectorate made up of 1,000,000 people, of which 100 make up the winning coalition. In this case, there is only a $1/10,000$ chance that any member of the current winning coalition will also be a member of a successor winning coalition, given that the odds of being in a successor coalition are the ratio W/S , which in this case is $100/1,000,000$, or $1/10,000$. As we already know, if all the revenue is spent on private rewards to the 100 members of the winning coalition, then each can expect to receive \$10 million. What happens if someone out of that 100 coalition members is unhappy with Tyrantia's leader and starts to think that maybe he should back the aspiring colonel? If a member of the general's coalition defects, then he or she has a $1/10,000$ chance of receiving \$10 million from the new regime and a $9,999/10,000$ chance of receiving no private goods whatsoever from that regime. The expected value of the prospective defector's share of the private goods to be dispensed by the successor regime is only \$1,000 (that is, $\$10 \text{ million} \times 0.0001$, where 0.0001 is the probability of getting private benefits, which is equal to W/S ; that is, $1/10,000$). It is easy to see that as long as the incumbent beats that expectation and provides public policies that are not much worse than those proposed by the challenger, the would-be defector can be kept happy and loyal. The incumbent can keep the difference between the \$10 million per supporter that could be distributed, and the something above \$1,000 per supporter that needs to be distributed. If the incumbent's challenger offers especially attractive public policies, then the incumbent can give up some of the "slush fund" to his or her supporters to purchase their continued loyalty. No wonder so many dictators have fat Swiss bank accounts and no wonder that they keep their jobs for a really long time! Why would anyone assured of getting a big cash reward in exchange for continued political loyalty to the general of Tyrantia gamble on losing that big reward to switch from the general to the colonel. The colonel may promise just as big a prize, but at the end of the day the colonel needn't keep the general's former loyalist in his ongoing coalition if he can find others who will provide equal support at a lower price.

Leaders have a natural preference for providing private goods as a means of retaining power. This follows directly from the calculation we just did. The risk to supporters of exclusion from private goods if they defect makes it possible—if all of the pertinent information is known to everyone—for incumbents always to beat their challengers if the competition is over private goods alone. Challengers recognize their inherent disadvantage in promising

private goods and therefore turn to policy to compensate. Thus, incumbents like to reward supporters with private goods, all else being equal, and challengers like to promise improvements in public policy, all else being equal. Of course, all else is rarely equal, and that is at the heart of the matter.

The Value of Being Needed When W/S Is Large

One important way that all else may not be equal concerns the size of the winning coalition in proportion to the size of the selectorate. The sizes of these two institutions vary dramatically. The incumbent's advantage in allocating private goods diminishes rapidly as the size of the winning coalition increases or as the size of the selectorate decreases. Let's take our example a little further. Suppose that we are in Democratia rather than Tyrantia. We already know that each of the 500,000 members of the winning coalition can expect, at most, \$2,000 of the \$1 billion that the leader has to spend in private benefits. This, of course, is way below the maximum expectation in Tyrantia. What is more, the incumbent in Democratia does not actually have to promise this much because even in a directly elected presidential democracy there still exists a 50 percent risk that a defector (who switches, say from voting for the Democratic Party to the Republican Party) will not make it into the successor winning coalition—that is, the group of voters who get rewarded (through pork barrel legislation, changes in entitlements to benefit them or changes in taxes to benefit them, all, of course, in the name of good governance).⁷ And the most the challenger can credibly promise to provide is equal to W/S times the private goods reward plus all of the value of public goods (since those are enjoyed by everyone, whether in the winning coalition or not). That is, the challenger for the presidency can at best credibly offer voters an expected value of only about \$1,000 per coalition member. The private goods deal certainly looks a lot better for supporters of an autocrat than it does for supporters of a democratic leader.⁸ The anticipated cost, in lost private gains, for defecting from Tyrantia's General is tremendous, being equal to almost all of \$10 million; the expected loss from shifting away from Democratia's president and backing her opponent is an expected loss of about half the value of an already small private benefit.

The general principle is straightforward. When the winning coalition gets bigger, private goods are spread more thinly and so can less easily make up

for failed public policies. As the selectorate shrinks, the risks of defection drop off, making the incumbent's advantage in using private rewards smaller and smaller. Thus, the greatest incumbency advantage in using private goods to satisfy constituents belongs to the leaders of political systems that have small winning coalitions and large selectorates. This makes the value of current private goods high for the average supporter and makes the expected value of private goods following a political defection small. It also means that the incumbent can, if so inclined, skim much of the private goods budget for his or her own ends.

Supporters in a large-coalition public-goods-oriented setting receive the benefits of public goods even if their leader is replaced by a challenger, such as after an election. This means that they can support a challenger with little consequence since they are getting few private gains in any event. Further, the larger the selectorate is, the greater the risk of exclusion if the challenger should come to power. A larger selectorate means more choices about whom the challenger will include in his or her new support coalition. Supporters then should be particularly loyal to a leader who answers to a small winning coalition with a large selectorate from which to draw that coalition. Such leaders can offer fewer private benefits than a challenger offers and still hold the loyalty of his or her supporters. In fact, how loyal supporters are to an incumbent is, as mentioned briefly, determined by the size of W relative to S .

TRY THIS

One of the ways things are not equal is that not all promises or assurances are credible. What actions might a prospective leader take to provide would-be supporters with a credible promise that they will share in private goods if the prospective leader does, in fact, come to power? In answering this question, be sure to consider whether and why the recipients of the promise would or would not believe it. (*Hint: Think in terms of how costly or cheap it is for the would-be leader to make the promise.*)

The Loyalty Norm (W/S) and Conventional Regime Types

The ratio W/S is large in states that people normally refer to as democracies. It is miniscule in places, such as North Korea, that operate on the basis of rigged elections. When W/S is large, coalition members have a relatively high probability of being in any future coalition because W/S indexes the odds that they will be selected. When W is absolutely large and is relatively large compared to S , switching loyalty to a rival politician is neither particularly risky nor costly. It is not risky because the odds of being required in a future winning coalition (W/S) are good, and it is not especially costly because when W is large, most rewards are paid in the form of public goods that everyone enjoys, whether in the coalition or not, rather than private goods that go only to coalition members. At any given level of revenue, there is a coalition size at which it is more efficient for leaders to switch to emphasizing public goods over private rewards. The observed emphasis on public benefits is not the product of civic-mindedness but, rather, is simply the rational response by leaders who want to keep their jobs. This means that small-coalition leaders are *compelled* by their political circumstances to emphasize inefficient governance as part of the reward package for their cronies (although they can be civic minded with the money at their discretionary disposal), while large-coalition leaders are *compelled* to emphasize effective public policy to keep their coalition's loyalty (and they have very little money at their discretionary disposal to be used for bribes or other corrupt practices). This compulsion of leaders to keep their coalition's loyalty by paying them sufficiently so that the leader can survive in office and exert discretionary control over revenue is the core of the incentive compatibility designed into coalitional politics. In short, leaders do what helps keep them in power and gives them as much discretionary control over revenue as is consistent with staying in power.

Leader Survival

The ratio W/S is the single biggest factor shaping a leader's survival prospects. When the support coalition must be large, we know the leader puts more emphasis on public goods; when it is small, private goods dominate. But that just speaks to the portion of a government's policies that help everyone or the few; it does not speak to how much is spent on these benefits.

The ratio W/S , the loyalty norm, determines how much a leader must spend to maintain coalition loyalty and, therefore, how much can be held back for the incumbent's discretionary use. When loyalty is weak, as in a

democratic, large W -to- S system, more must be spent to keep the coalition members from switching to a rival. When W/S is small, the risks of defection ($1-W/S$) are too high and the costs too great to abandon the incumbent; hence, loyalty is stronger. This translates into more money under Tyrantia's general's control than under Democratria's president's control. That, in turn, means that the incumbent that has a small coalition and a large selectorate (e.g., in Syria in [figure 2.4](#)) has more money for a rainy-day fund or for pet projects. So the leader could use the pot of discretionary money to swell a Swiss bank account or to try to improve the lot of his subjects. Syria's Bashar al-Assad clearly chose the former course over the latter. Libya's late dictator Muammar Qaddafi did the same. Indeed, he is reputed to have socked away an astounding \$200 billion that he took for himself and his family out of Libya's oil earnings.

Examples of leaders who put discretionary funds to good, civic-minded use include the late Deng Xiaoping of China and Lee Kuan Yew of Singapore. It might also include Mao Zedong and Fidel Castro, neither of whom seems to have stolen substantial amounts of money. These leaders, however, had poor ideas about how to improve quality of life, reminding us that when people must rely on the good intentions of their leaders rather than the pressures of accountability they are likely to have poorer odds of getting effective policy. The law of large numbers is on the side of effective policy in large-coalition systems but not in small-coalition settings. Examples of kleptocrats who use their discretion to enrich themselves are vastly more numerous than those who try to make people better off. No one would mistake the late Kim Jong-Il of worrying about the people of North Korea. You might try your hand at putting together a list of current leaders in small-coalition settings who you think are trying to help their people and of those who just seem to be thieves.

Autocracy and democracy, according to selectorate theory, are fundamentally different in their consequences even though all leaders are assumed to want the same thing—to keep their jobs and have discretion over as many resources as possible. Democratic politics in selectorate theory is a competition in competence to produce public goods; autocratic politics centers on the purchase of the loyalty of key supporters through bribery, corruption, and rent seeking.

These patterns are not absolutes; they are central tendencies. Even a system with a large winning coalition will have those who receive private

benefits. Leaders who answer to a small winning coalition do provide some public goods in response to coalition demands and may provide additional public goods with the resources at their discretion—that is, resources they do not need to spend on maintaining coalition loyalty. All else being equal, however, large winning coalitions induce leaders to shift public policy away from private benefits and toward the provision of public goods.

The selectorate theory logically implies several basic principles of politics that are applied repeatedly throughout this book. The most important of these principles are as follows:

1. Regimes with large winning coalitions focus on effective policies, including foreign policies. When leaders' policies do poorly, they either switch them or pour more resources into trying to make them succeed.

2. Regimes with small winning coalitions tolerate failed domestic and foreign policies better than do regimes with large coalitions because in small-coalition settings loyalty to a leader depends more on receiving private rewards than public benefits. As a consequence, leaders mostly continue on their policy course even when their policies are failing. They do not change course as quickly as large-coalition leaders, and they do not put extra resources into trying to make the policies, including foreign security and trade policies, succeed under most circumstances.

3. The likelihood that a leader survives in office despite failed policies increases as W/S decreases (so that the polity becomes more autocratic) and decreases as W/S increases (so that the polity becomes more democratic).

4. As W/S increases, leaders must spend more revenue to maintain loyalty among their coalition members and, as a result, these leaders have proportionately fewer revenue sources at their discretionary use than do those who depend on a small coalition drawn from a large selectorate.

5. Corruption and kleptocracy (governing by theft) increase in prominence as W gets smaller, especially when S also gets larger.

6. The foreign policies of small-coalition leaders are more heavily driven by the pursuit of opportunities for enrichment through territorial conquest, tribute, and the like rather than the pursuit of policy compliance from foreign rivals.

7. The foreign policies of large-coalition leaders are more heavily driven

by the pursuit of policy compliance by foreign governments than by the pursuit of enrichment.

8. When leaders can change political arrangements, they prefer to decrease the size of their coalition and increase the size of the selectorate.

9. When coalition members can change institutions (e.g., through coups), they always prefer to increase the ratio W/S and may, depending on circumstances, prefer to do so by increasing W more quickly than S or decreasing W more slowly than S .

10. When people who are not in the coalition have the opportunity to change institutions of government (e.g., through revolution or civil war), they always prefer to increase W and to increase W/S .

These ten principles form the backbone of the choices about how best to conduct foreign policy and how best to use resources (such as foreign aid) to influence governance and government policies, both foreign and domestic. They form the foundation of the assessment of international affairs throughout this book, sometimes with surprising implications, often with depressing ones. They also help point the way to how we might go about solving difficult international problems, including even problems that may lead to war. Any expectations that depend on differences in the size of the domestic winning coalition or selectorate are predictions about international affairs that cannot be derived from the standard focus on the state as a unitary, internally undifferentiated, actor.

SUMMARY

This chapter introduces a strategic perspective model of domestic institutions and foreign policy. Leaders who are intent on retaining power and authority must satisfy core constituents, identified as the winning coalition. The winning coalition is drawn from the selectorate, the set of people with a legitimate say in the selection of the government leadership. Leaders distribute a mix of benefits in the form of public policies that all enjoy and private goods that only members of the winning coalition enjoy.

We have seen that from a leader's point of view the optimal political arrangement is to have a small winning coalition and a large selectorate, as is common in systems with rigged elections. Under such arrangements,

supporters receive valuable private benefits that foster loyalty to their leaders even in the face of policy failure. Furthermore, loyalty is reinforced by the high political risks associated with defection to a political rival. Those risks increase as the size of the selectorate increases and as the size of the winning coalition decreases.

A monarchy or military junta is often the optimal political arrangement from the point of view of members of the winning coalition (i.e., the aristocracy or high ranking military officers). In a monarchy and military government, both of which have a small winning coalition and a small selectorate, the current value of private goods is high. This is true as well in autocracies. However, in monarchies and juntas, winning coalition members benefit from the fact that the risks associated with defection are not as great as they are in autocracies. This follows from the fact that the ratio of the winning coalition size to the selectorate size is larger in monarchies and juntas than it is in autocracies with rigged elections. The weaker loyalty to incumbent kings, queens, or generals means that the leadership must try harder to sustain the backing of their key supporters, spending a larger proportion of revenue on their coalition's welfare. That, of course, can work to benefit coalition members, almost certainly at the expense of the rest of society.

Democracy is the optimal form of government from the perspective of ordinary citizens. Relatively few private goods are doled out; instead, public policy is the focus of leadership decisions. Because good public policy benefits all people in the polity, even those not in the winning coalition are likely to fare reasonably well. Consequently, the broad mass of the population derives its greatest benefits under democracy. This is in marked contrast to monarchies, juntas, and autocracies in which the logical focus of leaders is to provide private goods—generally at the expense of seeking out successful public policies.

We have seen hints that several principles of international politics follow from the selectorate theory. These relate to resource allocations and their impact on foreign policy, trade policy, human rights policy, and even warfare. In the remainder of this book, we explore those principles to see how they can help us better understand and perhaps engineer international affairs.

KEY TERMS

adverse selection
audience costs
budget constraint
cheating
democratic peace
incentive compatible
loyalty norm
monitoring
moral hazard
principal-agent problem
private goods
public goods
public policy
rent-seeking
sanctioning
selectorate
winning coalition

Answers:

1. b. A leader who promotes poverty, oppression, short life expectancy, and general misery typically depends on a very small coalition of essential backers to stay in power. Rewarding them handsomely at the expense of the rest of society is the way to stay in power for a long time.
2. a. Democratic interveners are least likely to promote genuine democratization. To stay in office, they need to deliver public policies a broad swath of their population favors. That means imposing policies when they can on foreign governments. Those governments can be bought off if they are not democratic. If they are democratic, then their leaders must deliver policies their constituents want and those could come at the expense of a democratic intervener.
3. c. Natural resource wealth and foreign aid both tend to result in ordinary

citizens paying higher taxes and having a general reduction in their quality of life. The exception is when that wealth is found in a mature democracy. Mature democracies, however, almost never receive foreign aid.

4. b. Democratic leaders tend to be highly selective about the wars they fight, typically settling disputes peacefully, fighting only if they believe that their adversary is much weaker and easily defeated.

¹ Indeed, even this claim may exaggerate the difference between domestic politics and international relations. There are probably few, if any, purely domestic issues. Even the seemingly most mundane domestic political question may have international ramifications. Corporate tax breaks in Arizona, for example, may be sufficient to persuade companies to locate factories there instead of in Mexico or South Africa or Sri Lanka.

² Later we will learn about pure strategies and mixed strategies. Then we will see why the same outcome does not happen over and over again, giving both hope and dashing hope among observers and participants in the Israeli-Palestinian dispute.

³ The logic behind audience costs is explained more thoroughly in [chapter 6](#).

⁴ Recent developments in the selectorate theory also include the allocation of club goods (Smith and Bueno de Mesquita 2012; Smith, LaGatta and Bueno de Mesquita 2012), a concept introduced in [chapter 7](#). In this expansion, individual selectorate members can organize into blocs of “voters” to influence the allocation of benefits to their bloc.

⁵ Transparency International: www.transparency.org/policy_research/surveys_indices/cpi

⁶ Later we will see that Democratia, which depends on a larger winning coalition (500,000) than Tyrantia (500), is expected to have lower taxes and a large economy, but for now we treat these as equal, which works against the selectorate theory, not in its favor.

⁷ Of course, the United States does not have a directly elected presidential system. Because of the way that the Electoral College works and given the variation in population across congressional districts, a person could be elected president of the United States with significantly less than 30 percent of the popular vote.

⁸ Private-goods payments are usually subtler in democracies than in autocracies. In democracies, leaders promote tax policies or other redistributive programs that benefit their supporters whereas in autocracies leaders often distribute the right to be corrupt to their cronies.

3

Tools for Analyzing International Affairs



In this April 15, 2012, photo, a North Korean vehicle carrying a missile passes by during a mass military parade in Pyongyang's Kim Il Sung Square to celebrate the centenary of the birth of the late North Korean founder Kim Il Sung. The enormous sixteen-wheel truck used to carry the missile likely came from China in a possible violation of UN sanctions meant to rein in Pyongyang's missile program, experts say. Pinning a sanctions-busting charge on Beijing would be difficult, however, because it would be hard to prove that Beijing provided the technology for military purposes or even that it sold the vehicle directly to North Korea, the experts said.

OVERVIEW

- People's perceptions of reality—rather than reality itself—shape

decisions in international relations. In this chapter, we develop three tools that enable us to account for the role of perceptions in decision making. Together, these help us pinpoint the ways that strategic interactions might be resolved.

- Spatial models based on ideas such as the **median voter theorem** allow us to plot leaders' policy preferences along a line, allowing us to see, as a logical continuum, which policy option a leader prefers most and which he or she prefers least. Similarly, we can plot different leaders' policy preferences in relation to one another, allowing us to see how close or how far apart their preferences are.
- **Win sets**, which allow us to determine where leaders' preferences most overlap, help us identify the possible winning coalitions and policy agreements across linked or multidimensional issues.
- Expected utilities help us see how leaders will evaluate the costs and benefits to them of alternative courses of action and how they weight those costs and benefits according to the probability of their arising. By comparing the **expected utility** associated with alternative courses of action, we can predict which path a decision maker is likely to take.

This chapter offers an introduction to the toolbox of analytic techniques that are especially useful for understanding—and eventually engineering—policy choices in international affairs. It relies on logic and evidence to provide the foundations for understanding why leaders and followers do what they do. You may want to refer back to this and the next chapter from time to time to refresh your memory about how particular analytic tools work and when they are likely to be useful in deriving insights into international politics. You can think of the instruction here as a policymaker's or social engineer's “how to” manual that provides a structured way to think about how to solve problems and advance policy goals.

Too often foreign (and domestic) policy choices are made by relying on clever rhetoric that persuades without offering any real evidence or tight reasoning. For example, it is common for officials in the US government to

argue that nuclear weapons are primarily a deterrent that prevents war. That claim is intended to help justify the large nuclear arsenal the United States possesses, and the claim, easily subjected to empirical investigation, could very well be true. But then the US government also argues that nuclear proliferation is a threat to peace. Indeed, it is common for American leaders to claim that nuclear weapons in the hands of others—say North Korea or Iran—are such a threat to peace that even military force might be contemplated to prevent such proliferation. But if nuclear weapons deter, then their proliferation should reduce, not increase, the risk of war. If that is the case, and if we value preventing war, then it seems that we ought to welcome proliferation. Of course, either the deterrence or the dangerous proliferation claim can be true, but it is highly unlikely that both claims are true. Which perspective carries the greater weight doesn't get discussed as often as it should. Too often we just buy into the persuasive rhetoric of each point of view without pausing to notice that the one contradicts the other.

Assumptions Check

1. Does being more powerful than any other state assure security?
 - a. Power guarantees security.
 - b. Weak states can be secure if they have positioned themselves well on security policies so that they are assured of having the right friends regardless of who their foe might be.
 - c. Weak states are never secure against the most powerful state no matter who their friends are.
2. What conditions could make the least powerful international actor also the most secure against foreign threats?
 - a. being friends with a powerful state
 - b. being located in a remote part of the world
 - c. being positioned on critical issues so that half the power is on one side of their position and the other half is on the other side
3. Is it best to treat contentious issues one at a time or to bundle them together?
 - a. It depends on whether treating the issues separately or together gives a government more support at home and/or abroad.

- b. It is always best to treat issues one at a time to keep negotiations simple.
 - c. It is always best to link contentious issues so progress can be made on many fronts at once.
4. Is a negotiated resolution to a dispute always possible if everyone has the same information available to them?
- a. Yes. If everyone has the same information, then they can find a compromise.
 - b. No. Compromise may be impossible because a government cannot credibly commit to an agreement or because the issue at hand is a winner-takes-all issue so there is no room for compromise.

See end of chapter for answers.

Intuition, gut feelings, opinion, and ideology may shape beliefs, but they are a poor basis for making decisions that influence whether people enjoy peace and prosperity or suffer from war and poverty. Anecdotes can be informative, but they can also blind us to whether they reflect the typical or expected situation or, instead, reflect an odd—even unique—circumstance that is unlikely to recur. Rhetoric always has a part to play in persuading the public or politicians to support (or oppose) particular policies. Rhetoric, supported by anecdotal examples, is always employed by competing politicians and interest groups to argue for or against trade protectionism, for or against war, to argue for negotiations or for sanctions, and to vilify or to empathize with adversaries in the hope that effective rhetoric will encourage “good” policy choices. As important as the instruments of rhetorical persuasion are, neither anecdotes nor rhetoric provides a sound basis for choosing between policies. Therefore, we will take the more demanding route of learning how to recognize and formulate tightly reasoned arguments and to mobilize representative, rather than cherry-picked, evidence to probe whether our logical conclusions are informative about the world of current and future events.

This and the next chapter progress from relatively simple but powerful insights to more complex and intricate modes of analysis. Of course, this is an introduction; so much is left out. Later chapters expand on some of the tools introduced here, but most of the essential tools are found in this and the

next chapter. We begin with the median voter theorem and some of the powerful insights it provides. From there, we examine win sets, which identify the possible winning coalitions and policy agreements across linked or multidimensional issues. We already saw an example of this reasoning in the introduction. We then move on to the introduction of expected utility calculations. The next chapter shifts gear, providing an introduction to game theory, including how to solve some strategic problems in international relations when there is uncertainty about an important characteristic of the situation. For the sake of continuity, these ideas are developed in this chapter and the next in the context of a single ongoing example: the North Korean government's approach to the development of that country's nuclear capabilities. Before introducing various modeling approaches to strategic choice, I digress briefly to introduce the example.

THE EXAMPLE: NORTH KOREA'S NUCLEAR POLICY

Following World War II, the Korean peninsula was partitioned into a pro-Soviet and a pro-American zone. The government of the Democratic People's Republic of Korea (DPRK)—that is, North Korea—refused to participate in a free election under UN supervision in 1948. From the outset, North Korea's regime was concerned about its political survival in the face of what it perceived as a threat from the South (now the Republic of Korea, or ROK). Following a failed war launched in 1950 by the DPRK's leader (Kim Il-Sung) to unify the peninsula under his leadership, the North and South have remained at loggerheads. During the Cold War, the regime in North Korea depended on the Soviet Union for its security and economic stability (through foreign aid), but at the same time, Kim Il-Sung had serious doubts about the reliability of Soviet support. These doubts prompted interest in developing a home-grown nuclear capability to deter South Korea or the United States from toppling his government. That interest became urgent in the eyes of North Korea's leadership following the collapse of the Soviet Union and with it their loss of economic and military support. The North Korean government then looked both to China and within itself for protection from any threats that might arise.

Despite signing a joint ROK-DPRK declaration on December 31, 1991,

against the introduction or development of nuclear weapons on the Korean peninsula, the North Korean government withdrew from the nuclear Treaty on the NonProliferation of Nuclear Weapons (NPT) in March 1993. That treaty forbids its nonnuclear signatories from developing nuclear weapons. US president Bill Clinton, concerned about the North Korean government's nuclear intentions, attempted to negotiate a nonproliferation agreement with the North. The proposed deal included significant economic assistance from the United States and the provision of a light water reactor to generate electricity. This would have served to fulfill the alleged civilian energy purpose of the DPRK's nuclear efforts. Shortly after the deal was struck, however, midterm congressional elections gave control of the House of Representatives to the Republican Party for the first time in forty years. The new majority in Congress opposed paying off the North's government, seeing the aid-for-nuclear-restraint deal as little more than North Korean blackmail. With the United States therefore failing to meet its end of the 1994 Agreed Framework, as the deal was called, the North surreptitiously resumed its nuclear enrichment efforts, moving forward in developing a nuclear weapons capability. In October 2006, the Kim Jong-Il government (Kim Jong-Il having taken over the government on the death of his father, Kim Il-Sung, in 1994) announced that it had successfully tested a nuclear weapon, a fact confirmed by US seismic indicators.

North Korea's development of nuclear weapons and its development of long-range missiles capable of delivering those weapons are widely seen by many as an important potential threat to peace. This is true for two main reasons. First, North Korea is frequently belligerent toward South Korea. Although an armistice was signed in 1953 to bring an end to the active fighting in the Korean War, a peace treaty has not been signed. That means that technically the two sides remain at war. Indeed, the North has repeatedly acted aggressively against the South and with serious consequences. The DPRK government was responsible for planting a bomb on Korean Air Flight 858 on November 29, 1987, killing the 115 people on board. It is also thought to have been responsible for killing several South Korean government ministers. The DPRK government has admitted kidnapping citizens from the ROK, as well as from Japan, and illegally holding hundreds of South Korean prisoners of war, some believed to still be alive to this day. More recently, on May 20, 2010, the North sank a South Korean naval vessel, the *Cheonan*, killing 46 sailors, seemingly with no provocation. Again without provocation,

the North Korean military attacked a South Korean island community in November 2010. So North Korea's belligerence and military threat is not idle speculation; they have repeatedly acted aggressively against the interests of South Korea's people.

Second, North Korea's nuclear program and its development of long-range missiles provide an important impetus to its impoverished national economy. The North sells nuclear technology and missiles to governments and other groups around the Middle East and elsewhere. Many of its customers are on the list of terrorist states or terrorist organizations and so represent a genuine potential threat to peace in different parts of the world.

Against the backdrop of North Korea's nuclear activities—surely intended, from the North's point of view, both as a deterrent to the US and South Korean governments and also as a source of North Korean influence and revenue—there is a strong interest in negotiating an arrangement by which North Korea abandons its nuclear program. The main setting for such discussions has been the on-again, off-again Six-Party Talks. The six parties are North Korea, South Korea, the United States, China, Japan, and Russia. North Korea prefers bilateral talks with the United States, but the US government has refused to negotiate without the participation of the other deeply interested parties.

With the death of Kim Jong-Il in December 2011, the Six-Party negotiations are likely to continue to be on hold while Kim Jong-Un, the designated successor, attempts to consolidate control over the North Korean government. That makes this a good opportunity to reflect on the prospects for resumption of the Six-Party Talks and to do so in an analytically rigorous way.

THE MEDIAN VOTER THEOREM: A SPATIAL MODEL

One of the central contentions about international relations is that states or the people who lead them are interested in enhancing national security. Unfortunately, as important as that idea is, there are few clear definitions of this concept. Often, national security is thought to be equivalent to how much military might a state has amassed. More military power is often equated with more security (Kissinger 1979; Morgenthau [1948] 1978). This idea stems

from the notion that every state is on its own, living in a world where no international body can be relied on to enforce treaties or peace between states. We met this idea, called **anarchy** (Waltz 1979; Milner 1998; Powell 1994), in the introduction.

Although we can readily accept the idea that the international system of states is a self-help system in which each state can count only on itself to sustain its security against outside aggression, we still can easily see that it is not necessary to accumulate a large amount of military might to be secure. It is possible to forge policy stances that lead others, out of their own self-interest, to be a weak state's committed defender and assure that weak state's security.

Spatial models provide a way for us to think about security, especially in the context of the median voter theorem for issue preferences that can be depicted on a line. **Spatial models** are a class of abstractions that assume that we can locate decision makers and their policy preferences either on a line or in a space that includes more than one dimension (such as an x and y axis, or an x, y, and z axis and so forth). When we discussed the notion of the national interest back in the introduction, [figure I.1](#) illustrated just such a two-dimensional representation of interests.

With a few basic assumptions about preferences and decision making, we can use spatial models—that is, lines and graphs to anticipate how decision makers might respond to proposed solutions to a policy question, including questions that affect national security. To see how, we begin by addressing what makes a state secure in the context of a one-dimensional spatial model. Such a model considers decision making in the context of preferences on one policy issue at a time.

Talking about states for the moment, I define *national security* to mean that the state has adopted policies that minimize the likelihood that any group of other states can and will coalesce against it and defeat it, in the process depriving the vanquished state of resources, the lives of some of its citizens, and perhaps its very existence. This view of security is in keeping with the way the concept is generally used in international politics by realists or neorealists (Waltz 1979).

One way to evaluate national security is to invoke a principle of politics that is common in the study of voting and legislative policymaking but is all but ignored in international relations since state-centric views rarely talk about policy preferences. I have the median voter theorem in mind. The

median voter theorem (Black 1958) says that if issues are one-dimensional, preferences are single-peaked (which relaxes Arrow's assumption of universal domain, introduced in [chapter 1](#)), it takes a majority to win, and everyone with a vote votes based on their preferences then the median voter's position is the winning outcome. In the international context (with a bit of clarification provided shortly), this means that, keeping the theorem's assumptions in mind, a policy position exists—the median state's policy position—that maximizes national security. Under the theorem's restrictions, the median state's policy preference cannot be defeated. Hence, any state, whether individually strong or weak, that has endorsed the policy supported by the median voter has also optimized its security with regard to the policy in question. Remember, just like the Pythagorean theorem, this too is a theorem. That means that its conclusions follow logically from its assumptions and, therefore, are logically true and so accurately predict the winning policy position in any situation that meets the theorem's assumptions. As we will see, this theorem has significant applications in international relations. That makes it a good starting point for thinking about how policy disputes get resolved. Let's have a closer look at a few of the assumptions whose meaning may not be obvious.

Assumption 1: Unidimensionality

The first component of the theorem stipulates that we are investigating an issue that is unidimensional (or, equivalently, a one-dimensional issue). An issue is **unidimensional** if the possible ways to resolve it can be displayed meaningfully on a straight line. To display choices in this way, it is useful to consider that each participant in the issue's resolution has a most preferred outcome, sometimes referred to as the participant's **ideal point**, and that it is the set of these ideal points that can be placed on a single straight line, subject to the additional restriction that each decision maker's preferences are single-peaked, as explained shortly.¹

Suppose, for instance, that the president of the United States has to figure out what his preferences are regarding the DPRK's nuclear program, as surely he must. He might say the following:

I prefer the demolition of North Korean nuclear facilities without needing to provide any other promises to North Korea more than I prefer that North Korea's nuclear weapons program is dismantled on

the promise of our aid and peace once dismantling is confirmed. But, I prefer that North Korea's nuclear weapons program is dismantled on the promise of aid and peace once dismantling is confirmed to North Korea's nuclear weapons program only being disabled once North Korean aid and peace treaty conditions are met.

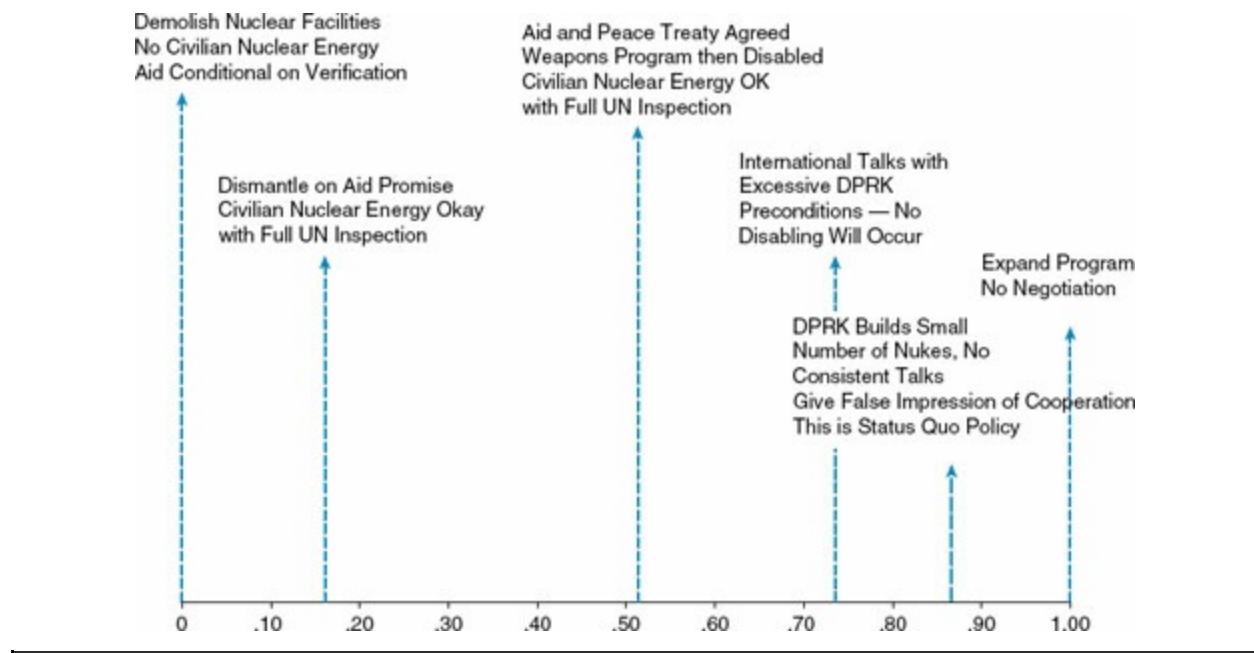
That would be preferred, in turn, to still worse options from the US president's perspective. From Kim Jong-Un's perspective, however, the first choice might be to expand North Korea's nuclear program by increasing its stockpile of weapons, followed very far down the road by any of the deals listed among the US's top three choices. Still, other interested parties might start with a middle-ground position and then shift toward stricter or more lenient terms for a deal.

We might locate all key decision makers and their constituents, as well as a variety of international actors interested in weighing in on what North Korea does on the nuclear front, along a one-dimensional line segment whose end points and specific points in between are defined to reflect progressively more (or less) extreme positions on the question of what nuclear policy should be agreed to. [Figure 3.1](#) illustrates this idea by assigning numeric values to different points along a line segment and defining the meaning of those different numeric values in terms of the nuclear policy terms they represent. As I have defined it, positions closer to 0 on the line segment reflect greater opposition to North Korea's nuclear capacity and points closer to 1.00 reflect support for more and more pro-DPRK nuclear policy outcomes. While I have defined the range of values on the nuclear policy scale in [figure 3.1](#) to fall between 0 and 1.00, the choice of range is arbitrary. I could just as easily have chosen a range of values from 0 to 100 or from -32 to 15 or anything else. What does matter for working out the median voter position and other features of the spatial model is the *relative* distance between points. So, for instance, on a scale from 0 to 1, position 0.35 is 35 percent of the way up the scale from 0 and position 0.50 is 50 percent of the way and position 0.75 is 75 percent of the way across the scale. So we know that position 0.50 is closer to the policy represented at position 0.35 than it is to the policy at 0.75. That means, according to the assumption of single-peakedness that I explain shortly, that in a dispute between someone at position 0.35 and someone at 0.75, anyone at 0.50 will side with the person at 0.35. Position 0.35 is closer to the ideal point of anyone at 0.50 than is 0.75. Of course, for any finite scale, we can find a point that is 35 percent or 50

percent or any other percentage from one or the other end of the scale.

As it happens, position 0.89 on the scale signifies the current status quo policy adopted by the North Korean government as of the time of this writing. Position 0.89 substantively means that North Korea builds a small number of nuclear weapons, North Korea will not engage in consistent diplomatic talks, and the DPRK presses for talks without preconditions to create a false impression of cooperation. While this is the North Korean government's current policy, it may not be the true policy preference of some of North Korea's leaders. Kim Jong-Un, for instance, is estimated to support position 1 on the scale meaning he wants to expand the DPRK's nuclear capabilities and, at least for now, he does not want negotiations. The position of the US government falls between 0 (the Republican Party) and 0.25 (the Democratic Party), with President Obama at 0.20 on this scale as of March 2011 when the data were assembled by my undergraduate students in a course called Solving Foreign Crises. Thus, the estimated ideal outcome from the US government's perspective as of 2011 is approximately located at position 0.20 on the scale, which states that North Korea should dismantle its nuclear capabilities on the promise of foreign aid and that it should be allowed to develop civilian nuclear energy under UN oversight. This is President Obama's position. If the American electorate replaces Obama with a Republican president, then that is a signal that the US preferred policy has shifted to 0.

FIGURE 3.1 What Changes in North Korean Nuclear Policy Can We Expect in the Next Five Years if Kim Jung-Un Retains Power in North Korea?



Russia's Vladimir Putin's ideal point—his most desired policy—is estimated to be at 0.49 on the scale while Russia's foreign minister is believed, based on a survey of public statements, to be at position 0.40, with Russian Prime Minister Dmitri Medvedev at 0.47. The estimated ideal point for Putin, for example, tells us that he prefers, but not by much, the DPRK-imposed status quo over the Republican Party position, but he prefers Obama's policy to the status quo. I say this because the distance from Putin's position to the DPRK-created status quo is 0.40 points ($0.89 - 0.49$), his preferred policy's distance to the most extreme US posture (the Republican Party) is greater than 0.40 at 0.49 points ($0.49 - 0.0$), and his distance from Obama's position is smaller than 0.40 at 0.29 points.

Figure 3.2 illustrates the idea that we can locate the policy position (i.e., the preferred policy) of different decision makers or other interested parties on the continuum defined in figure 3.1. Figure 3.2 does so for a selected group of US, Russian, Chinese, Japanese, South Korean and North Korean political leaders to illustrate that there is considerable variation in policy preferences even among those concerned with slowing or reversing North Korea's nuclear program. A more complete data set, which we will develop as we go along, also includes, of course, several other Six-Party political actors as well as other international parties outside the Six-Party framework. These other data (which measure political clout, degree of focus on this issue, and commitment to reaching agreement versus resolve to stick to one's

preferred outcome), just like the policy preference information, were developed by undergraduate students in my course, Solving Foreign Crises. They developed the preference data and other variables through meticulous online searches as well as detailed research in other media to learn who is trying to influence North Korean policy and where these parties stand on the nuclear issue.

The information in [figure 3.2](#) would not be sufficient to predict the outcome—the median voter’s position—even if the figure showed all the thirty interested parties identified by my students, which, of course, it does not. To work out the median voter’s policy position and why any interested party at that position is the crucial decision maker, we need to understand the meaning of the other assumptions behind the median voter theorem.

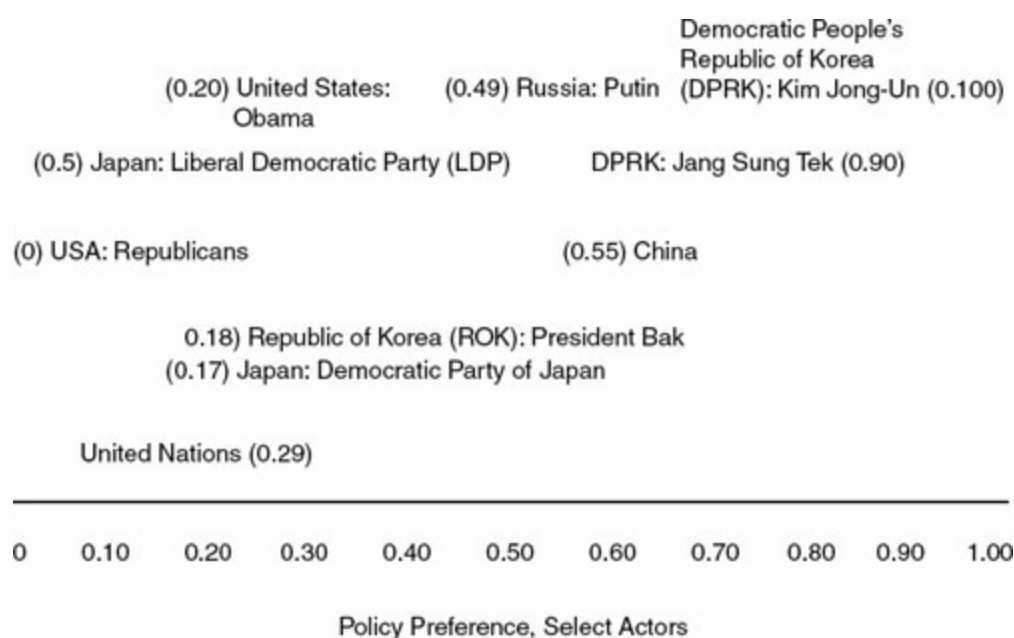
Assumption 2: Single-Peaked Preferences

The assumption of **single-peaked preferences** means that any choice farther from the most preferred outcome of an interested party is less desired by that stakeholder than choices closer to its most preferred policy. So, for example, Japan’s Liberal Democratic Party (the LDP) at position 0.05 on the scale is signaling that it does not like the idea of North Korea developing a civilian nuclear energy capability (position 0.18 on the scale) as much as it likes the DPRK having no nuclear program at all (position 0), but it prefers a UN-supervised civilian nuclear energy program to the idea of the DPRK getting aid, international security assurances, and civilian nuclear energy *before* it disables—rather than dismantles—its nuclear weapons capability (position 0.51). China’s government, at 0.55 on the scale, favors slightly weaker constraints on North Korea than the policy defined by position 0.51. China’s government also favors the UN position (0.29, implying a weaker UN inspection regime than is contemplated by the policy at position 0.18) more than it favors continuation of the status quo (position 0.89). Indeed, we can compare any alternative choices along the continuum of policy options for any actor and say, based on the assumption of single-peaked preferences, what the actor’s complete preference ordering is.

Single-peaked preferences tell us this information because the smaller the distance between any actor’s most preferred position and any given alternative the more that actor likes the alternative. So, for example, we can say that China at 0.55 likes the UN position at 0.29 more than the status quo

(0.89) because the difference between the status quo and China's position; that is, $0.89 - 0.55 = 0.34$, is greater than the difference between China's preferred policy and the UN position ($|0.55 - 0.29| = 0.26$).²

FIGURE 3.2 Selected Policy Preferences



Note: Value in parentheses are the estimated ideal points.

Not all issues or all stakeholders in the real world have single-peaked preferences. We ignore certain possible preference orderings when we assume that preferences are single peaked. To be clear about what is ruled out by this assumption, let us consider some logically possible preference orderings that are not single peaked. Suppose, for instance, we want to know how Lee Myung-bak, the current president of South Korea, feels about North Korea having no nuclear program, limiting the DPRK to a civilian nuclear energy program, or seeing North Korea expand its nuclear capabilities. It is logically possible for Lee Myung-bak to order these three choices in six different ways, ignoring the possibility that he is indifferent among any pair of them. Of course, with more choices there are many more possible preference orderings. Using the “greater than” sign ($>$) to denote preference, so that $A > B$ is read “A is preferred to B,” he could, in principle, hold any of the following preferences:

1. No nuclear program > civilian energy industry > expand its nuclear capability
2. No nuclear program > expand its nuclear capability > civilian energy industry
3. Civilian energy industry > no nuclear program > expand its nuclear capability
4. Civilian energy industry > expand its nuclear capability > no nuclear program
5. Expand its nuclear capability > civilian energy industry > no nuclear program
6. Expand its nuclear capability > no nuclear program > civilian energy industry

Of these six possible ways to order the preferences (ignoring indifference) among the three choices we are focusing on at the moment, the assumption of single-peaked preferences rules out preference orderings 2 and 6 for anyone, no matter what their ideal point. Lee Myung-bak's policy stance on this matter is identified here as favoring the development of civilian nuclear energy, followed by no nuclear program, with expansion being least desirable. That is, he prefers ordering number 3 given the assumption of single-peaked preferences and with position 0.18 identified as his most preferred policy outcome in negotiations with the North. We see in more detail in a moment why orderings 2 and 6 are ruled out by the assumption of single-peaked preferences.

Let's review the rules that are dictated by the assumption of single-peaked preferences so that we can work out anyone's presumed priorities about different policy choices if we just know their most preferred outcome, as in this case. The assumption that preferences are single-peaked tells us that the farther a choice is from an individual's most desired choice, the less that choice is valued. This establishes that the individual has a transitive preference ordering, meaning that if choice A is preferred to choice B and choice B is preferred to choice C, then choice A is preferred to choice C. Consider what this tells us about Lee Myung-bak. His most desired nuclear policy for North Korea is at position 0.18 rather than at either extreme of the issue continuum depicted in [figure 3.1](#). This means that the more we move in either direction from President Lee's preferred outcome, the less desirable the

policy options become for him.

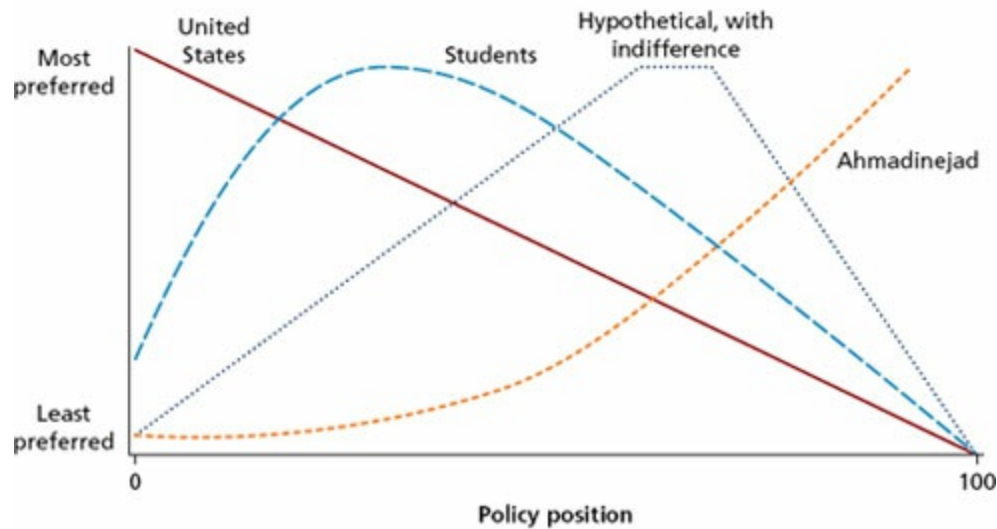
One way to represent this decline in preference is to create a measure of how intensely he likes or dislikes different policies. Using that measure, called **utility**, we can draw a line whose slope shows how much or how little he prefers alternative nuclear policies. If we drew such a line of how intensely he likes or dislikes policy alternatives, it would have one peak, and that highest point would occur at the policy Lee Myung-bak most prefers. The line showing how intensely he favors the alternatives would decline steadily as we moved farther and farther from his most preferred approach to resolving North Korea's nuclear capacity. If the line were flat across some range of points, so that across those points the line was parallel to the policy scale (x axis in [figure 3.1](#)), then that would tell us that the set of policies reflected by that part of the measure of intensity of preference reflects policies about which the decision maker is indifferent. [Figure 3.3a](#) illustrates examples of single-peaked preferences with and without indifference.

No matter where a stakeholder's most preferred policy falls on the issue continuum, the assumption of single-peaked preferences means that we can draw a line from its ideal point with the height of the line representing its intensity of preference for the outcome at each point on the continuum, and that this line measuring intensity of preference will have one peak and will decline steadily the farther we move from that actor's ideal point whether we move to the left or to the right.

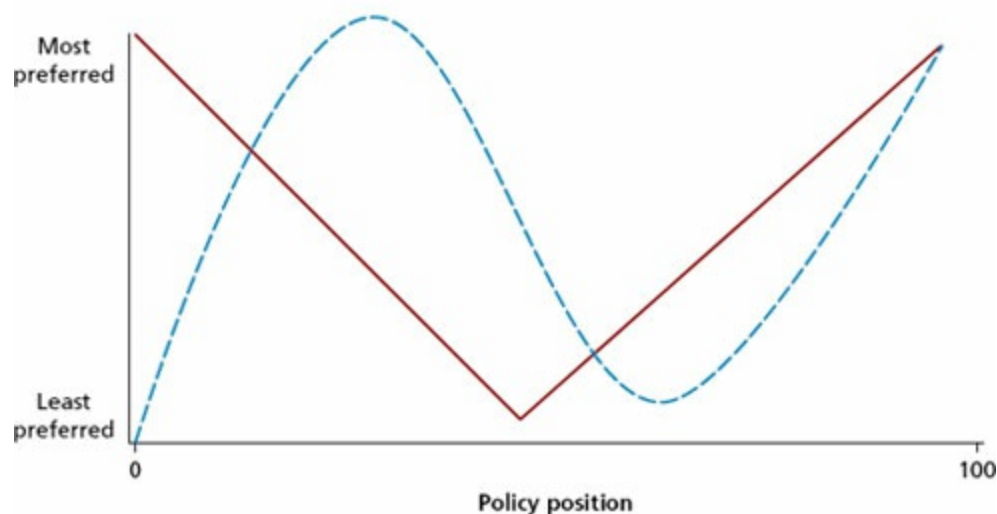
If we plot the preferences of a stakeholder who holds the preference order 2 or 6 from our list, we would see that the line has two peaks (see [figure 3.3b](#) for examples of non-single-peaked preferences). Any preference ordering that leads to more than one high point, so that the line rises, falls, and rises again (or falls, rises, falls) is ruled out by the assumption of single-peaked preferences.

FIGURE 3.3

(a) Examples of Preferences That Are Single-Peaked



(b) Examples of Preferences That Are Not Single-Peaked



Of course, just because we assume that no stakeholder has preferences that produce multiple peaks does not mean that no one actually has these preferences. It is possible that a stakeholder could have preferences like those in preference orders 2 and 6 despite our assumption that preferences are single peaked. If we are mistaken empirically in ruling out such preference orderings, then any predictions we make based on this assumption, including the median voter prediction, may prove to be wrong. Assumptions, after all, restrict how we think about the world and, in doing so, play an important part in constructing expectations. While assumptions give us a basis for making predictions, we must always be clear and explicit about what we are

assuming so that everyone can tell on what basis we arrived at our predictions. Clarity about assumptions is a crucial part of tight, logical reasoning.

TRY THIS

Draw the preference intensity lines for preference order number 2 or number 6. Can these preferences be drawn with a single peak?

Assumption 3: Majority Rule

Finally, the median voter theorem tells us that, with single-peaked preferences and a one-dimensional issue, the median voter—the voter for whom it is true that half of the voters are to her left and half are to her right on this policy continuum—holds the winning position if a majority is required for victory. This idea that the median voter wins raises two questions. First, what is special about the median voter that makes that voter's position the predicted winner? Second, just what does majority rule mean in the context of international affairs, where most situations involve no voting in the normal sense?

The median voter is said to be the winning position because under the assumptions of the median voter theorem (that we are examining a one-dimensional issue, that stakeholders have single-peaked preferences, and that the majority rules) the median voter position is the only one to get a majority of support against any alternative policy position. The median voter is unique in having this special property that, in a head-to-head contest with any other position on the continuum, single-peaked preferences dictate that there is more support for the median voter's position than any other position. To see this, consider how everyone would “vote” if the contest were between the median voter's position and an alternative slightly to its left. All the choosers at the median voter's position or to its right, according to the assumption of single-peaked preferences, prefer the median voter's position to any position to the median player's left because their positions are closer to the median position than to any position to its left. By the definition of *median*, no more than one-half of all voters minus one can be to its left (or its right). Thus, at most, the position just to the left will always get one fewer votes than the

median voter's position, and so, by majority rule, the median voter's position wins. Of course, the same is true if we pick a choice to the right of the median voter's position, only then the median voter's coalition of support includes everyone to the left of the median voter's position and, together with the median voter, that coalition is at least a simple majority. Clearly, picking choices farther away from the median can only add to the median voter's support, so it always wins at least a simple majority of votes under the theorem's assumptions. No other position on the continuum can make the same claim.

This still leaves the question of what we mean by majority rule in the international context, a world in which for most matters it certainly is not true that each nation, each decision maker, or each influential actor has one vote. For now, I take a *majority* to refer to a majority of the power that each stakeholder controls in the context of the issue and majority rule to mean that the first position accruing the majority of this power (the median voter) is the chosen position. We can think of power as the ability of a stakeholder to persuade others to do what it wants them to do even when they would rather do something else. Power, or the ability to persuade others, depends on different criteria in different contexts. Power might be based on military might or economic clout or expertise or some other dimension of influence, depending on what is relevant for the issue at hand (Keohane and Nye 1977). On trade issues, for instance, military power rarely is as germane as economic might, while in a military confrontation military power typically takes precedent over other sources of influence or persuasion.

On the North Korean nuclear issue, power reflects a complex combination of conditions that give decision makers more or less ability to persuade or coerce relative to others. Some power relationships are based on military threats, others on economic influence, still others on domestic political popularity, and yet others on shared cultural or ethnic values. The critical thing to recognize is that power is not distributed evenly among the parties interested in influencing North Korea's policies—this is not a case of one-person, one-vote. The top two leaders in North Korea—Kim Jong-Un and his uncle, Jong Sung Taek, for instance—have more power to shape the DPRK's nuclear policy than, say, the United States or the United Nations on their own. Kim Jong-Un together with Jong Sung Taek can mobilize North Korea's military, its politicians, and perhaps even its citizens although they are unlikely to easily mobilize international support. Although Kim Jong-Un

commands great potential power, still, even with the backing of the rest of the North Korean influencers, he does not have so much power that he is immune to influence from the combined efforts of the United States, Russia, China, Japan and the ROK.

Offsetting their prospective influence, however, is the simple fact that Kim Jong-Un has a formal veto right, at least for now, over any policy adopted by his government. By this, I mean that if he says “no” to a proposed deal the deal cannot go through. It is important that we not confuse veto power with the power to dictate an outcome. A player with veto power must surely be paid attention to in forging a deal, but it cannot, for instance, assure selection of its ideal point (Tsebelis 2002). It can assure that if the proposed deal is too far from its ideal point then the proposal will not turn into an agreement. How far is “too far,” as we will see later in this chapter, can be pretty reliably estimated.

If we array the stakeholders in terms of their preferred policy outcome, as in [figure 3.4](#), plotting how much power is located at each potential policy outcome, divided into tenth of a point swaths, we can see the landscape of political influence over a possible agreement regarding the DPRK’s nuclear capacity. It is evident when we look at this figure that there is considerable power behind the idea of expanding North Korea’s nuclear program while avoiding any international negotiations or agreement (positions 0.90–1.00) but that this power is far from dominant. Certainly, the DPRK positions between 0.90 and 1.00 carry enough weight that we might believe they will dominate North Korea’s choice, taking domestic North Korean pressure and international pressure into account. But this position does not control a majority of power; it is not the median voter’s position. It could not garner the support of a coalition that controls most of the influence in this context, and that is necessary, barring a veto, for any agreement. Therefore, nuclear expansion could only be implemented if Kim Jong-Un is prepared to veto the resumption of the Six-Party Talks and face the prospective economic and (less probable) military consequences of doing so (which he may well be prepared to do).

FIGURE 3.4 Power Distribution by Nuclear Policy Preference

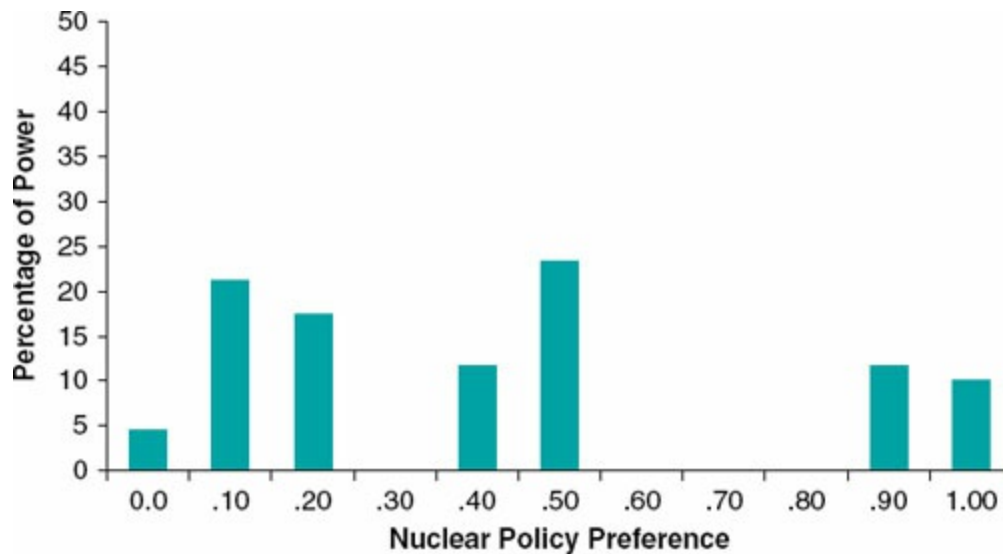
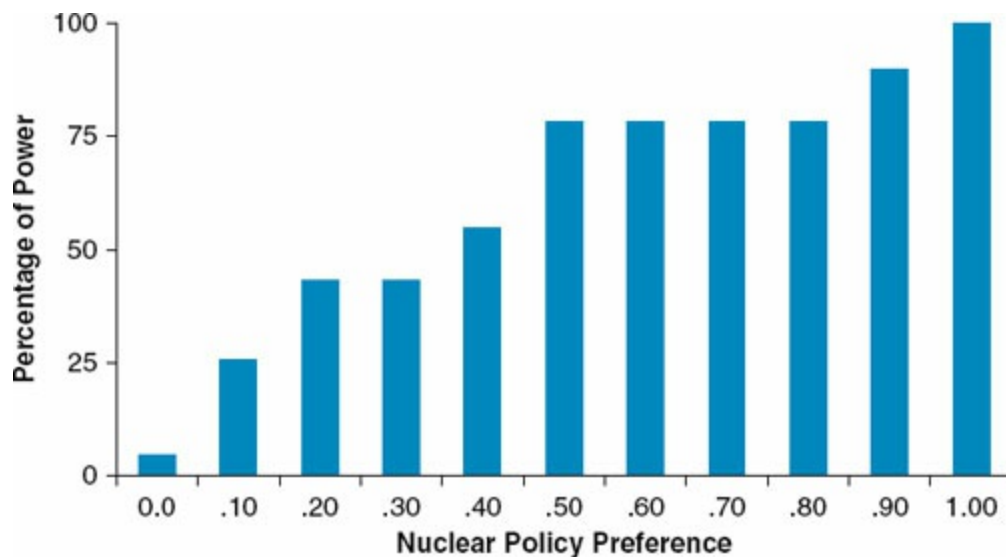


Figure 3.5 takes the values at each policy position depicted in figure 3.4 and adds them up so that we can see the cumulative total amount of power (or, so to speak, votes) as we move from left to right on the continuum. Of course, the position of the median voter would not change if the accumulation of power were done from right to left. As is evident in figure 3.5, the median voter's position, the position that first commands a majority of the power in this situation, is located at the policy stance adopted by the government of Russia (approximately 0.45 on the issue scale). Recall from figure 3.2 that the Russian leadership favors support for a deal in which North Korea will be granted some form of security assurance, perhaps short of a **nonaggression pact** (a peace treaty assuring that the DPRK will not be invaded and will not invade any of the participants in the Six-Party Talks). It supports the DPRK receiving economic assistance, being allowed to develop a civilian nuclear energy capacity with full UN oversight and a mix of dismantlement and disablement of various parts of its nuclear capabilities. This, then, is the predicted outcome based on the median voter theorem. This is the policy we expect that the international community and the North Koreans could agree to if—a very big if—the issue has been properly defined and the set of relevant stakeholders has been properly identified and rated accurately according to their preferences and their power and if the decision requires a majority “vote” based on the sincere, rather than strategic, interests of the six parties. Of all of the restrictions imposed by the median voter theorem this latter one—that the decision makers will act sincerely on their preferences rather than strategically—is the least likely to match reality. In chapter 4, we will place

this problem in a strategic, game theoretic context, but for now let's stick with the simpler—and still powerful—median voter perspective.

FIGURE 3.5 Cumulative Power: Finding the Median Voter



The previous paragraph tells us three things: (1) we can use the median voter's position as a preliminary basis for predicting the policy outcome, (2) the median voter—one of the Russian players—is part of a relatively small power bloc and yet it occupies the most secure position, and (3) it draws our attention to some possible reasons that the prediction might be wrong. As we can see in [figure 3.4](#), the power in favor of an outcome between positions 0.40 and 0.50 on the scale comes to just 11 percent of the total power. Although it is one of the smaller power blocs, it is the potentially winning position. Contrary to the notion of many realists like former secretary of state Henry Kissinger, the median voter theorem shows us that having the backing of strong allies is more important than how powerful a state is on its own.

Let's explore why the prediction might be wrong. The median voter's position is a compromise policy that appears to be unacceptable to the North Koreans, who, as noted, have a veto. It also may be unacceptable to the US government, which also has a veto in the sense that it can refuse to provide a peace treaty or other assurances in exchange for North Korea disabling its nuclear facilities. Since getting the Six-Party Talks underway again not only requires agreement from North Korea but also some expectation of agreement among the other five governments with a seat at the table, the median voter

prediction might be overturned by internal domestic political considerations in any or all of the United States, Japan, South Korea, North Korea, and China. The Russians presumably adopted their policy stance after reflecting on their own internal political pressures and so their policy, which happens to be the median voter policy, is probably perfectly fine with the Russian stakeholders who count.

Once we start thinking about domestic pressures and domestic median voter views, we realize we must consider what can be sold at home as well as what can be agreed to with the North Korean government (Putnam 1988). They may not be the same thing. We need to figure out what is the relevant strategic environment: the international arena, the domestic arena, or both. Usually, the answer will be “both” although the degree to which we give weight to the foreign or domestic audience will vary across political circumstances (Fearon 1994; Smith 1996; Schultz 2001). Much of the rest of this book is about how to resolve that concern.

Probably the global median voter position on North Korea’s nuclear policy is unlikely to survive domestic political scrutiny. That means that we must be attentive to the aggregate impact of the median voter outcome in each participating party’s government rather than across all of the actors as we have done thus far. Of course, each government’s bargaining position presumably reflects that internal median calculation but then that means that international compromise may be severely constrained by the strength of domestic pressure. I say this to highlight that taking the political structure in which decisions must be made into account is important and that a simple median voter perspective across all actors may be misleading. The median policy in the United States is Obama’s at position 0.20. For Japan, the median is 0.17; China 0.55; Russia Medvedev’s 0.47; and in the ROK, President Lee’s 0.18. Among these five governments based on their domestically derived positions, the median voter’s policy toward North Korea’s nuclear capability in the Six-Party framework is Obama’s position at 0.20 on the scale: provide aid (but no security assurance) after the North dismantles (not disables) its nuclear facilities, but allow civilian nuclear energy development under UN inspection. This is, then, the policy most likely to be pushed in a first round of talks if they are to take place now that Kim Jong-Un is in power. This policy can be supported by the United States, South Korea (their domestic median is 0.18), and Japan (whose domestic median is 0.17). But such a policy is so far from what is sought by the DPRK (with a domestic

median at 1) that it probably is a nonstarter, leading to the prediction that there will be no talks for the time being (written in January 2012). Once we move to a strategic environment, we will see that this can and, indeed, is expected to change with time.

WIN SETS: THE MEDIAN VOTER AND ISSUE LINKAGE

The international community is well aware of North Korean rigidity on the nuclear question especially during the leadership transition since the death of their “dear leader” Kim Jong-Il on December 17, 2011. This rigidity and unreliability of North Korean promises is what worries much of the international community. We can ask, therefore, what political maneuvers are open to the international community to try to alter the nuclear policies favored by Kim Jong-Un’s government so that the security-maximizing median voter viewpoint on the DPRK’s nuclear capacity is not vetoed by the North’s leadership? One possibility is to link changes in North Korea’s nuclear posture to changes in the North’s economic conditions through varying quantities of foreign aid. By introducing a second issue dimension, we may open the door to compromise on the nuclear question. Tying the quantity of aid to nuclear policy means that we cannot invoke the median voter theorem since it assumes issues are one-dimensional. We can, however, see what happens if we relax the median voter theorem’s first assumption, the assumption of unidimensionality, while retaining the assumptions of single-peaked preferences and majority rules. Of course, once we relax any assumption of any theorem, that theorem’s results no longer apply. Just as the Pythagorean theorem applies only to right triangles and is of no help with any other type of triangle, the median voter theorem only applies when issues are unidimensional, single-peaked, and majority rules.

There is, in fact, considerable debate in the international community about what is the best approach toward North Korea. North Korea’s closest friends, such as the leadership in China, argue for substantial and unconditional economic assistance as a way to entice but not compel the DPRK to diminish its nuclear potential. Japan argues against substantial aid until North Korea takes full responsibility for the Japanese citizens it has kidnapped, releases them, and perhaps provides appropriate compensation.

The United States has blown hot and cold on aid to North Korea. In general, Democrats have been more open to providing energy assistance and food aid and Republicans more skeptical about such aid. They note that much of the food aid the United States has provided in the past—and the US government has at times provided massive amounts of food assistance—has not gone to starving North Koreans. Instead, it has been taken by the North Korean government, especially the military, and sold on the black market to enrich itself and to further entrench the regime.³ From this perspective, economic assistance will only provide the North Korean government with money that it will use to strengthen its political position. But then perhaps if its political position were stronger it would feel less need to pursue its nuclear weapons policy.

Evidently, some people perfectly reasonably believe that rewards will induce better behavior and others perfectly reasonably believe rewards for past bad behavior will only encourage more bad behavior in the future. From that point of view, the appropriate response to North Korea's nuclear threat is to impose severe economic sanctions unless that country's government verifiably dismantles its nuclear facilities. Some advocate going even further, threatening the use of force to disable or dismantle North Korea's enrichment facilities. For now, we will examine a rewards strategy—giving aid—and in [chapter 4](#), we will investigate the efficacy of sanctions policies. That is not to say that one or the other is clearly superior. We do not know and cannot know without trying both. Although no one can know what the right approach is, it is possible to estimate what the optimal aid level (or sanctions level) is that can extract the greatest nuclear concessions from Kim Jong-Un's government. Of course, any such deal must be constantly monitored to ensure that aid can be cut off (or sanctions reinforced) if the North fails to comply on the nuclear front. And, from the North's perspective, they must be able to assure themselves of the continued flow of aid money as long as the DPRK complies with the nuclear part of a deal.

Briefly, we can summarize the logic behind each approach. Each approach addresses the incentives that people have to alter their actions, either by being rewarded for changed behavior or being punished for failing to change. The approach that favors punishment is supported by a long history of effective deterrence, but there are also numerous examples of the failure of deterrence. Raising the costliness of action, just like raising prices at the grocery store, changes what people do. If the benefits from a nuclear

program remain the same for Kim Jong-Un's regime but the costs of such a policy become greater, then fewer people will continue to endorse the policy. They will be deterred by the desire to avoid the costs and so will moderate their policy stance. Conversely, raising the rewards for improving behavior is also a plausible approach with a long history of successes and failures. Gas stations discount the cost of gasoline for people who pump their own gas because this small effort helps the gas station save money and so the station passes some of these savings on to the customer. Likewise, governments are likely to moderate their policies when they are given some valuable benefits—such as foreign aid—in compensation for their concessions. So aid from the United States and less international opprobrium might encourage the DPRK's leaders to be more responsive to international wishes. As the rhetoric of persuasion sometimes suggests, you catch more flies with honey than with vinegar. That is especially likely to be true during times of economic contraction, such as when North Korea suffers from a crop failure. The strain on food supplies makes the government more vulnerable to potential internal opposition and likely to be more responsive to economic assistance from abroad.

Which approach is best is not a matter of opinion or of clever phrases. Which works best depends on the rate at which the various decision makers are willing to trade costs or benefits in exchange for policy concessions. We can estimate the rate of such trade-offs, called the marginal rate of substitution by economists, by taking the **salience** or relative importance of the costs and benefits into account. Doing so allows us to calculate the slope of an **indifference curve**, with the slope telling us how much extra aid, for instance, is needed to “purchase” a specific level of nuclear concession.⁴ We will see this in greater detail as we develop the logic of win sets.

The costs approach and the rewards approach are part of the repertoire of international actions taken toward North Korea. The United States and some of its allies have imposed sanctions against North Korea. But, since none of the United States' closest allies trade or otherwise do much business with North Korea the sanctions are of limited impact. Others, such as the ROK and China, have made overtures to persuade the North Korean government to be more cooperative and have, in the past, offered unconditional aid in the hope of building closer ties. Neither sanctions nor unconditional aid have produced the desired consequences thus far. Now, however, there is a new leader on top of North Korea's government. The change in leadership makes this a

good time to investigate what is likely to happen if the quantity of aid is made conditional on changes in the North's nuclear policy.

Suppose that we locate the leaders of the six governments involved in the Six-Party Talks in terms of their preferred nuclear policy and their preferred level of economic assistance for North Korea. [Figure 3.6](#) does just that. The horizontal axis shows preferences for the six parties on the nuclear question. These are identical to their positions in [figure 3.2](#). Unfortunately I have less precise information regarding the stance of each government on foreign aid to North Korea. I have relied on past patterns of behavior toward the North combined with recent policy statements from senior officials in each of the governments. I have assumed that Kim Jong-Un would like to have a very large amount of aid coming in to relieve his government's financial difficulties, even as he maintains his expansionist nuclear attitude. I have assumed that the United States, the ROK, and China, each for its own reasons, are prepared to offer substantial aid in pursuit of their preferred nuclear agreements with the DPRK. My assessment is that Russia's government is ready to support a moderate level of aid (almost certainly not paid by them) to the North while the Japanese government, with complex pulls and tugs acting on it, is ready to support a small aid package in the current political environment. I have come to this conclusion by looking at Japan's behavior in relation to its statements. It has, for instance, promised substantial aid—billions of dollars worth—if North Korea gives up its nuclear program, but Japanese practice has often fallen short of its aid promises.

FIGURE 3.6 Preferences of a Few Key Players about the Democratic People's Republic of Korea's Nuclear Policy and Foreign Aid

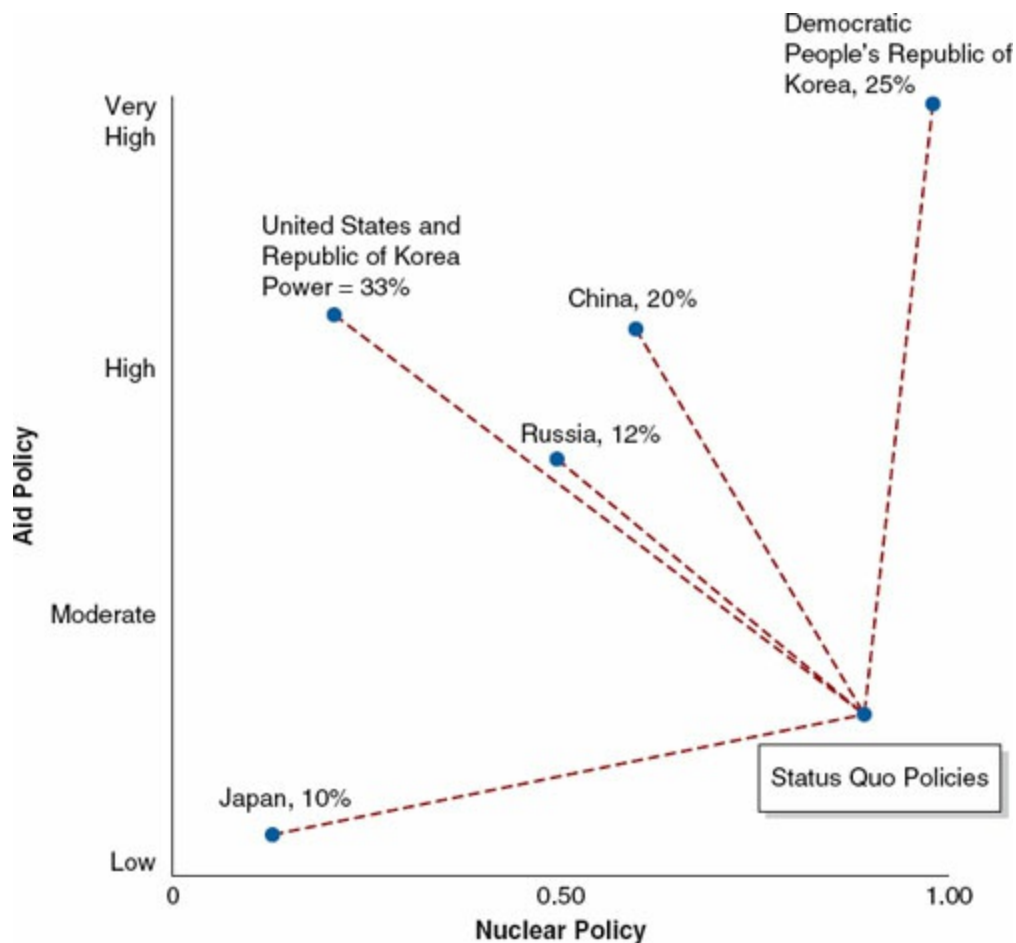


Figure 3.6 locates each of these six governments at their ideal points on these two dimensions based on each of their internal median voter preferences. The ideal policy preference for each is identified by a small blue circle. Figure 3.6 also depicts the location of the current status quo on these two dimensions. On the dimension of aid policy, the status quo reflects considerably more aid than Japan currently believes is warranted and substantially less than the ROK favors. The nuclear status quo reflects the policies established during Kim Jong-Il's tenure as leader of North Korea. With his youngest son now in charge, there may be an opportunity to negotiate a new policy on the nuclear front by also providing a new policy on the aid dimension. By linking the two, as in figure 3.6, we may find a compromise that makes all of the key actors better off than they are with the existing status quo. That is, we may be able to identify one or more Pareto improving policies for the participants in the Six-Party Talks.

To understand how linking these two dimensions might influence North

Korea's policy, we need one additional assumption beyond majority rule and single-peaked preferences. Because there are several parties with veto power, any deal must satisfy the veto players (the United States, DPRK, and ROK) by being at least as good, or better, than the existing status quo policies from each of their points of view. This means that a majority is necessary but not sufficient for an agreement to be reached. Assuming that those with a veto are the governments of North Korea, the United States, and the ROK, any deal must be acceptable to each of them.

The percentages recorded next to the name of each policy ideal point (the blue circles in [figure 3.6](#)) reflect the relative clout of each key group. The clout of Japan, China, and North Korea, for instance, combines to equal 54 percent of all of the power estimated to belong to these six sets of actors. This group has a majority, but it is unlikely that a deal could be struck that excluded the United States or South Korea since each has a presumptive veto over any foreign aid-related deal. They, after all, are the most likely providers of the bulk of any foreign aid included in a negotiated settlement of the nuclear program. It is much less likely that Japan or Russia has veto power and so a deal that excluded them might still be implemented. Thus, we must keep track not only of whether we have enough power behind a deal but also whether that power includes the veto players (Tsebelis 2002).

The assumption of single-peaked preferences allows us to discern exactly what combinations of nuclear policy and aid levels each stakeholder prefers to the status quo. For example, any combination of aid and nuclear policies that is closer to Russian prime minister Medvedev's ideal point (his policy preference works out to be the Russian median voter preference and is very close to President Putin's preferred policies) will be preferred by the Russia government to the status quo, and any policy combination farther from his ideal point than the status quo will be unacceptable to him as a replacement for the status quo. That is exactly what is implied by the assumption of single-peaked preferences. This means that all the points that are equidistant from any actor's ideal point are equally good or equally bad for that decision maker.⁵ The **circular indifference curve** at any distance from the ideal point of a decision maker can be thought of as a ring around a mountain whose summit—the single peak—is the location of the actor's two-dimensional ideal point. The larger the radius of a circular indifference curve—that is, a circle or ring centered on the player's ideal point—the farther it is from the stakeholder's ideal point, so concentric circles that are smaller (whose points

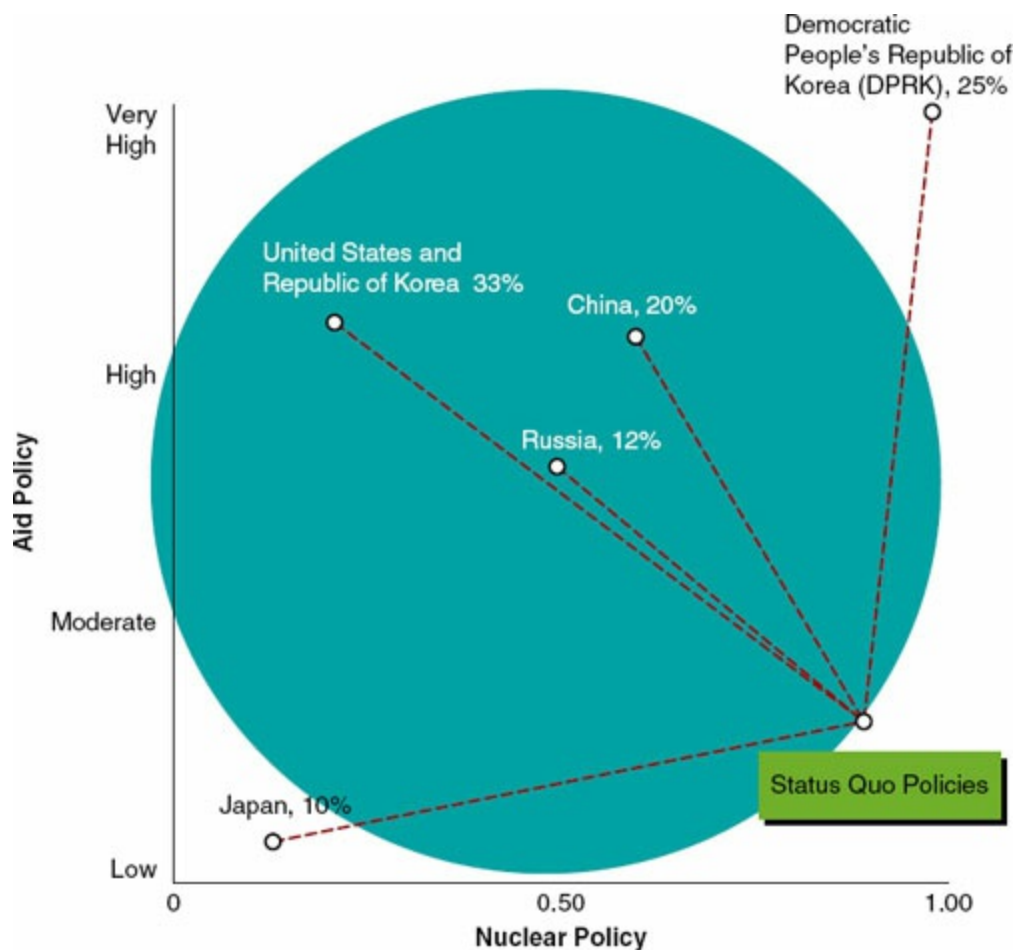
are closer to the ideal point) reflect policies preferred by the decision maker over those reflected by larger circular indifference curves (whose points are farther from the actor's ideal point). In this way, the indifference curves might be thought of as creating a topological map of the mountain slope, the larger and larger circles representing preferences that are farther and farther from the summit—the decision maker's ideal point. Of all these possible circular indifference curves, the one that is tangent (just touches), the status quo policy combination is of particular interest. That indifference curve has a radius that is equal to the distance from the decision maker's ideal point on each dimension to the point that represents the status quo on the two dimensions. We care about this exactly because the status quo policy is the policy to beat. For instance, the perimeter of the circle in [figure 3.7](#) shows all of the policies that are exactly equal in value to the status quo policy from the Russian perspective. That means that the Russians are indifferent when these policies are compared to one another. Every policy combination inside the circle, however, is better for the Russian leadership than the status quo policy. All of the policy combinations inside the circle, therefore, are referred to as Russia's **preferred-to set**; they are preferred to the existing aid and nuclear policies.

[Figure 3.8](#) builds on [figure 3.7](#) to show us the circular indifference curve tangent to the status quo for each of the six participants in the Six-Party Talks. This makes the figure pretty complicated looking, but it also makes the figure the source of considerable information about ways the nuclear issue could be resolved and ways it couldn't. Of note is that the points inside each actor's indifference curve that touches the status quo point represent all the policy combinations that each individual player likes better than the current status-quo level of aid and nuclear policy. We already saw this for Russia in [figure 3.7](#). All the policies inside China's indifference curve, drawn with a purple outline and filling show their preferred policy combinations. Similarly, the US and South Korean preferences are contained in their blue-colored curve and the DPRK in their brown curve. Japan's preferences are outlined with a green circumference but no internal color to make the figure a little easier to read.

The overlapping areas in [figure 3.8](#) show regions of shared preference between stakeholders. Each overlapping area with its own color change reflects a mix of policies that some combination of actors prefers to the status quo. Some of these overlapping areas either lack majority support or exclude

a veto player. Those overlapping areas cannot beat the status quo. For instance, the banana-shaped area excludes the DPRK, and so none of the policy mixes in that banana-like area can replace the status quo.

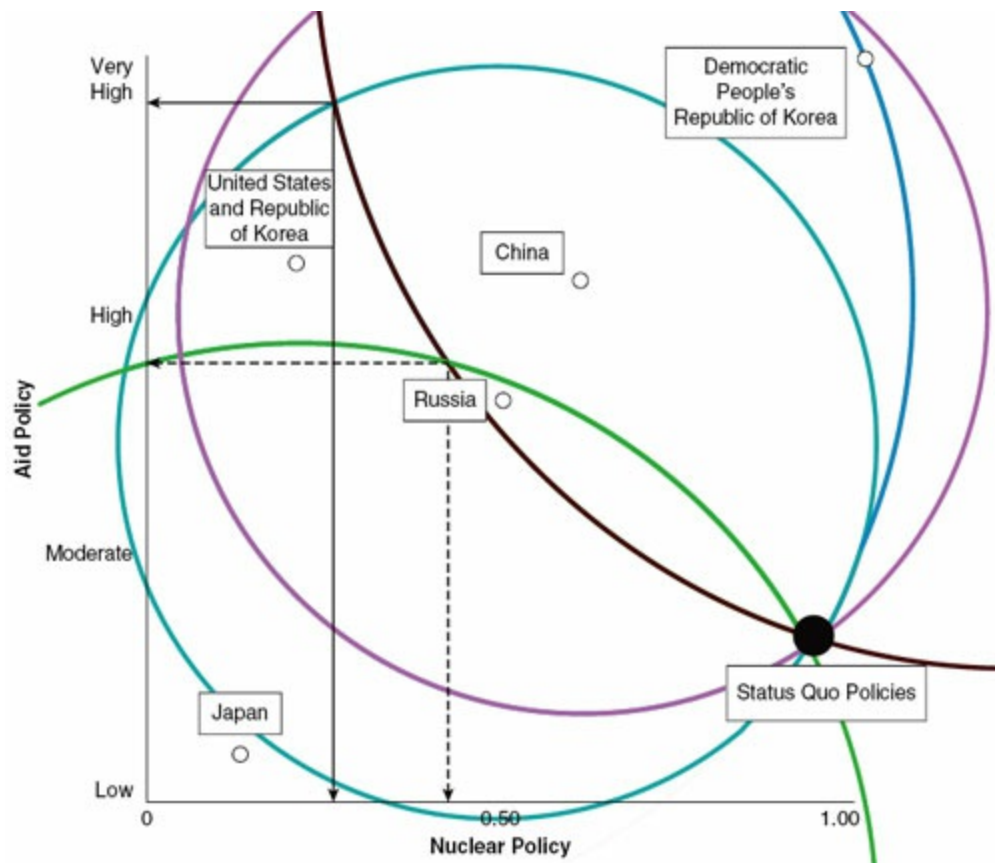
FIGURE 3.7 Russia's Preferred-To Set: Policies Russian Leaders Like Better than the Status Quo



The overlapping areas that include the veto players—the United States, ROK, and the DPRK—are potential agreements since each of the veto players find these overlapping areas preferable to the existing status quo on nuclear and aid policy, and each point in these overlapping areas control a majority of power. We can see in [figure 3.8](#) that there is a petal-like shape with Russia near its edge and China almost squarely in its middle. That petal represents policies preferred over the status quo by the United States, the DPRK, the ROK, China, and Russia but not Japan. There is a smaller petal

whose upper bound is a curve and whose lower edge just includes the DPRK. That smaller petal depicts the feasible deals that include all participants to the Six-Party Talks. I shall refer to this smaller petal as the set of policies that represent a *comprehensive deal*. I refer to the points in the larger petal that do not include Japan as the array of possible *limited deals*.

FIGURE 3.8 Win Sets for Aid Policy Versus Nuclear Policy



Both of the petals just discussed are known as win sets. As the name indicates, these areas include a majority of the power among the stakeholders in [figure 3.6](#) and also include the veto players. There are other win sets in the figure as well. For instance, the purple area reflects policies preferred to the status quo by the United States, South Korea, China, and North Korea but not Russia or Japan. I will not discuss this win set since it offers nothing more to the United States and South Korea than the win set that also includes Russia, but it costs the United States and ROK more in economic assistance. So while it is a feasible set of policy choices, there is no reason for the United

States and ROK to agree to it over the limited deal win set that includes Russia.

For our purposes, the two win sets I have highlighted are of special interest. The solid horizontal arrow in [figure 3.8](#) shows the amount of foreign aid that would have to be provided to get the maximum feasible nuclear concession from North Korea. That level of aid purchases the upper bound of nuclear concessions in the win set that excludes Japan. If Japan is to be included, then the best nuclear deal that could be reached is shown by the dotted vertical arrow in [figure 3.8](#) and is associated with the dotted horizontal arrow pointing to the lesser amount of foreign aid that would lead to this comprehensive deal. Japan prefers this deal to the status quo, as does everyone else, but Japan does not prefer the deal (or many of the other feasible deals) in the win set that is outside the circumference of Japan's preferred policies, the green circular indifference curve. Getting a unanimous deal means making a sacrifice on the nuclear front while saving somewhat on the foreign aid front. We know this wouldn't be vetoed because all the veto players are in this win set, but it is evident that the limited deal, which excludes Japan, is better for almost everyone except Japan and it is no worse for the DPRK than the comprehensive agreement that includes Japan.

The limited deal win set supports a much more cooperative, aid-giving approach toward North Korea than the status quo but it comes at the price, for North Korea, of a significant pullback in their nuclear program. The win set bounded on the upper right by the solid arrows indicates giving North Korea only a little less foreign economic assistance than they are asking for but giving it with a big string attached. The DPRK leadership would have to agree to a nuclear policy only slightly more favorable to them than President Obama's ideal point. It would be a policy that would require significant, but not complete, dismantlement of their nuclear facilities and would permit UN-supervised development of civilian nuclear energy. I estimate, based on other analyses, that the required amount of annual foreign aid to make this deal is approximately \$1.2 billion dollars (Bueno de Mesquita 2009).

If the Japanese were included in the agreement, the aid level would be moderate to high, equaling maybe \$400 million to \$500 million annually. In exchange for that amount of aid, the North Korean government would agree to disable more of its nuclear capabilities than the Chinese recommend but would not go nearly as far in that direction as the US government currently advocates. Although neither of the win sets I have highlighted is ideal from

anyone's perspective, they both have the virtue of being better than the status quo policy for all of the key decision makers. Thus, the various mixes of policies contained within the win sets all represent bases for a meaningful agreement between North Korea and the other participants in the Six-Party Talks.

The win-set analysis shows us how linking issues can sometimes break an impasse and produce multiple compromise solutions to a policy problem. It helps us to deal with the inability to apply the median voter theorem when issues are multidimensional, and in doing so, it draws our attention to the strategic interests losers on one dimension might have in tying issues together. Win sets, in turn, rely on the assumption that there is some structure behind the policy problem. Specifically, they identify policy combinations that are compared to some specific reference point. The existing status quo is often chosen as that reference point because it is the natural fallback position to which alternatives are compared. This provides the status quo with special status in policy by indicating that policy changes require not only that a majority "like" the new policy combination but specifically a majority likes it better than the status quo. All of the policy mixes outside the win sets, for instance, cannot replace the status quo because they do not beat the status quo for a majority of the decision makers or, perhaps, for the veto players. Without that status-quo fallback structure or some other structural constraints on choices we can run literally into policy chaos. In fact, a set of very important theoretical results, collectively known as the chaos theorems (McKelvey 1976; Schofield 1978) prove that, in the absence of structure, there is a rational strategic path from any policy point in a multidimensional space to any other point in that space such that each can muster majority support provided preferences are single peaked and choosers act sincerely on their preferences by choosing what is best for them among the feasible options. This means that the median voter position is one of infinitely many policy combinations that potentially can be supported by a majority. The chaos theorems therefore teach us that some additional structure is required if we are to have a stable, feasible outcome. Besides the fall back position looked at in win sets there are many other forms of possible structure. They will occupy us throughout this book as we focus in on selectorate politics and its implications for institutions of government and leader incentives.

We know that if the nuclear and aid issues are kept separate, North Korea could extract substantial aid from the international environment, as it has

done in the past, without granting concessions on the nuclear issue. If the issues are linked, it is possible to get the DPRK government to trade away some of its nuclear capabilities for greater international aid; the size of that trade-off depends crucially on whether the United States, the ROK, or the DPRK insist on unanimity among the six countries in the Six-Party Talks or are willing to make a deal without, for example, Japanese acquiescence. Thus, veto power provides an additional important structural constraint on what compromise can be or will be struck. Indeed, Tsebelis (2002) has shown how much more difficult agreement becomes—or how much more limited the range of feasible agreements is—as the number of veto players increases. The views of veto players, like the status quo fallback position, play a central role in predicting which compromises can happen and which cannot.

In the spatial analysis, the attractiveness of different possible policy outcomes is dictated by their proximity to each stakeholder's most desired result. This notion certainly helped us sort out choices, but it did not provide much insight into the strategies that participants could adopt that might lead to one coalition forming as opposed to another. And it gave us only a limited way to gauge the risks as well as the costs and benefits of alternative ways of solving the issue. Spatial models provide one way to pursue goals—form coalitions with like-minded actors to shape the policy outcome. Cooperating with others is certainly a useful approach to achieving objectives, but it is not the only approach. Sometimes issues get resolved by using coercion as well as cooperation. Certainly, the nuclear dispute between the United States and North Korea is a candidate for either cooperation or coercion, but spatial models don't leave much room for coercive diplomacy (George 1971).

When disagreements appear to be highly susceptible to cooperative outcomes—as is surely true for disagreements within the European Union or between the United States and Great Britain, for example—then one-dimensional and multidimensional spatial models are powerful tools that can be helpfully applied. Of course, even in a fairly cooperative setting, we must be attentive to whether issues are to be negotiated one at a time, whether they are naturally linked, or whether some decision makers have an interest in linking them even if doing so does not seem natural. That is how we can sort out whether a one-dimensional or multidimensional analysis is more appropriate (Riker 1996; Thomson et al. 2006).

The EU governments, for instance, have been grappling with a widespread economic crisis that threatens to pull some countries that use the

euro as their currency to abandon the euro and reintroduce a national currency. European governments and other interested parties, as we discuss in [chapter 11](#), disagree on the extent to which austerity or stimulus spending is a way out of their debt crisis. Different parties also debate whether the European Central Bank (ECB) should print money or otherwise provide low-interest loans to banks and to governments to help them out of the crisis but at the cost of a cheapened euro and potentially severe inflation. Here, then, are at least two issue dimensions that could be settled individually or jointly. Whether they are treated individually or jointly is itself a strategic decision since the alternative approaches provide greater or lesser benefits to different members of the European Union. Cheap money and inflation, for instance, could help debt-ridden economies like Greece or Italy but would hurt sounder economies like Germany or the Netherlands. Austerity budgets satisfy the demands of those countries whose citizens are asked to provide short-term economic assistance but are intensely opposed by workers in places like Greece or the United Kingdom who are asked to bear the burden of lost benefits and a diminished quality of life. To solve these problems, we need to consider not just preferences and influence but the application of each in a strategic manner designed to advance one party's interests even if that means harming others. That is the domain of game theory, the topic of the next chapter. Before turning to game theory, however, it is useful to introduce some basic ideas that will help us in thinking about how to work out someone's best choice of actions. I have in mind the techniques of estimating expected utilities.

EXPECTED UTILITY

What are some of the key factors that enter into foreign policy decisions such as the ones confronting the United States and North Korea over the DPRK's nuclear capacity? When making foreign policy decisions, policymakers typically assess the probability⁶ that an outcome, such as any of the points on the nuclear issue scale, will arise given alternative approaches to the problem. They also estimate the expected costs (the losses resulting from spending resources or forgoing opportunities to make different choices) and benefits (the gains from the outcome of a decision) associated with different approaches. They do not actually write down equations as we will do, but they act *as if* that is what they do. In fact, there is a substantial track record of

evidence that suggests that we can predict the choices that real policymakers make on the basis of the calculations and tools discussed here (Feder 1995, 2002; Ray and Russett 1996; McGurn 1996; Tetlock 2011).



Greek protesters unfurl banners over the defensive walls of the ancient Acropolis, calling for the people to rise up in protest of harsh austerity measures. The Greek government is torn between the anti-austerity protests of its citizens, their desire to remain part of the eurozone, and the demands of European leaders for strict austerity as the condition for a financial bailout that could keep Greece in the eurozone.

TRY THIS

Construct an example with two issues and three players in which two of the three players can improve how well they do by linking choices together on the two issues rather than solving them one at a time. Then construct an example with two issues and three players for which linkage appears unlikely.

To achieve accurate assessments and to create useful ideas about helping engineer better decisions, we need to find a way to make use of the core

components of any decision: probabilities, costs, and benefits. One way of doing this that seems to enjoy considerable success is to combine this information into estimates of the expected utilities associated with alternative ways of pursuing goals. Expected utility calculations look at the different consequences, in terms of benefits minus costs, that can arise from a specified action; multiply each possible consequence by the probability that it will arise; and then adding up these quantities across all the various consequences that have a chance of occurring given the chosen action. The resulting value is the expected utility of the action, a value that can be calculated before the action is taken and that can be compared to the expected utility of alternative actions that could be chosen so that the decision maker can pick the one that yields the greatest *expected* net gain. Let's see what this means in concrete terms.

Computing Expected Utilities

In our discussion of win sets, we considered how much different decision makers might value giving foreign aid as an approach toward North Korea's government, linking aid to the policy adopted on the nuclear issue. There were two reasons to consider linking aid to the nuclear program. First, aid could compensate the North Korean government for making, from its perspective, a sacrifice on the nuclear dimension. Second, the linkage, by providing ample compensation, was intended to persuade the North Koreans to turn away from aggression and adopt a more peaceful approach to their neighbor. Now I would like to look at that consideration more deeply and from a different perspective.

Let's put ourselves in Kim Jong-Un's shoes as best as we can to ask what his thoughts are likely to be. In this case, let's switch gears a little. I now assume that a Republican politician, with position 0 on the nuclear issue scale, has been elected president of the United States, replacing Barack Obama. In this instance, I want to consider how Kim Jong-Un is likely to decide, for instance, between taking a deal that the Republicans might offer versus attacking some part of South Korea with the aim of coercing the ROK's government into acceptance of his nuclear posture. The idea behind this analysis is to see how we might reasonably estimate whether fighting or making a deal is the "better" choice from Kim Jong-Un's point of view. Of course, the logic we apply would be equally appropriate for sorting out any

other actor's choice.

To work out how Kim Jong-Un might think through the strategic choices he faces (accept a deal offered to him jointly by the US and ROK governments or use force to try to impose his will), we must estimate his probability of success and failure if he uses force, as well as the costs and benefits for using force. In particular, the assumed new US government must work out what compromise to offer, and Kim Jong-Un needs to evaluate whether from his perspective the offer is good enough to accept or whether he prefers to take his chances by attacking. Of course, in the real world he would have the option of making a counteroffer, and that is something we will consider in later chapters. For now, we want to keep things simple. Clearly, a Republican president, with a preference for an outcome at 0 on the scale, might propose a deal that looks like Obama's preferred policy, one of the win-set compromises, or China's policy to mention a few possibilities. Each would be a departure from the current Republican Party view. Each would also represent a prospective deal that, if accepted, would be a major policy shift for North Korea's leadership.

We can use estimates of probabilities, costs, and benefits to identify the conditions under which some compromise or other would prove acceptable to both the United States (and ROK) and to North Korea if the United States has a new, Republican president, as well as North Korea having a new leader in Kim Jong-Un. There are three possible outcomes on the nuclear question in the scenario I am setting out:

1. North Korea attacks South Korea, loses to the joint military response from the ROK and United States, and is compelled to abandon its nuclear program.
2. North Korea attacks, prevails, extracts agreement from South Korea (and the United States) that it can expand its nuclear program without harassment.
3. The United States, ROK, and DPRK governments agree on a compromise policy on the nuclear issue.

Whether the US, ROK, and DPRK governments can come to terms and avoid war depends on the deal that is offered and on the probability of victory or defeat in a war as well as the costs of a war. Let us place values on these three possible outcomes. Earlier, I talked about placing a measure of intensity

of preference on the choices decision makers face. That measure of intensity of preference is generically referred to as utility. Utility values have several important characteristics. We start with a basic view of utility as linear rather than, for instance, increasing exponentially or logarithmically or in some other way as alternatives get closer to a decision maker's ideal point.⁷

It is important to realize that the range of the numerical values attached to utility is not important because utilities can be placed on any scale as long as their *relative magnitudes* do not change as a consequence of a linear transformation of values (such as adding a constant or multiplying by a constant). For example, I might value the worst outcome imaginable at 0 and the best at 100, with some specific alternative *X* at 30. I might just as easily value the worst outcome at 0, the best at 1, and alternative *X* at 0.3. Nothing will have changed. Just as easily, I might value the worst outcome at -42, the best outcome at 658, and *X* at 210. Still, nothing has changed in terms of my intensity of preference for *X* compared to the best or worst outcome from my point of view. Only relative values are important. Even whether the scale is all positive, all negative, or varies between positive and negative numbers does not matter. It is not possible to interpret a single utility value. The utility value becomes meaningful only when it is compared to another utility for a different outcome or to the same outcome with a different strategy for achieving it for the same stakeholder. Also, utilities cannot be meaningfully compared across decision makers. My utility for some policy *X* might be 0.7, and yours might be 70. Because we do not know whether you define your utilities on the same scale as me, we do not know whether 0.7 for me is bigger than, less than, or equal to 70 for you. After all, I can transform 0.7 without changing its meaning for me by multiplying all of my utilities by 100 or by 10,000 or by whatever number I like. I have not changed how much I like policy *X* by doing so; I have just changed the scale on which I have defined my utility values, my measure of intensity of preference.

What we want to know from utility scores is how much more a person likes one outcome compared to another. Preferences tell us which one is liked better; utilities tell us how much better. A numeric value is used to reflect the relative strength of a preference. Often, for computational reasons, it is convenient to attribute a utility value of 1 to a stakeholder's most desired outcome and a utility value of 0 to its least preferred outcome. This is computationally convenient because multiplying by 0 eliminates terms and multiplying by 1 is always easy and so unlikely to lead to errors. And by

assuming single-peaked preferences and linear utilities on an issue scale from 0 to 1, we know that how much better or worse alternatives are depends straightforwardly on how close to or far they are from each player's ideal point. Indeed, with the greatly simplified assumption of linear preferences, we can say that any actor's utility for some alternative X compared to the actor's most preferred outcome, X^* , is equal to the following:

$$\text{Utility} = 1 - (|X^* - X|) \quad (3.1)$$

Although equation 3.1 depicts a very simple utility function, we can also see that when comparing choices at the extremes of a 0, 1 scale it reduces to an even simpler statement, and we will capitalize on that simplicity in examining the decisions that a Republican president must make and the decisions Kim Jong-Un must make. In particular, for any proposal at position X on our 0 – 1 issue scale, I define Kim Jong-Un's utility for a compromise at X as X and the US Republican president's utility for proposal X as $1 - X$. That is equivalent to saying that if the nuclear policy outcome were at 0 on the scale; that is, at a US Republican president's ideal point, then the president's utility for that result is $1 - 0 = 1$. I denote this as $U_{\text{US}}(0) = 1$, where the value in parentheses denotes the outcome $X = 0$. Conversely, the US government's utility for position 1 on the scale, in which Kim Jong-Un expands North Korea's nuclear capabilities, is 0 and can be written as $U_{\text{US}}(1) = 0$. It should now be evident why we can say, more generally, that $U_{\text{US}}(X) = 1 - X$ given our assumption that utilities are linear with the proposal's proximity to the relevant player's ideal point. To be a genuine compromise, any proposal must satisfy the condition that for the US government, $0 < U_{\text{US}}(X) < 1$. Conversely, Kim Jong-Un's utility from some compromise position X can be thought of simply as $U_{\text{DPRK}}(X) = X$ so that if $X = 1$ on the scale, then the DPRK government's utility is 1; if $X = 0$, its utility is 0, and for X to be a compromise, it must be the case that $0 < U_{\text{DPRK}}(X) < 1$, meaning that a compromise proposal is greater than 0 on the scale and less than position 1 on the scale.

For Kim Jong-Un to decide what to do, he will need to compare the value of a compromise to the value he expects to get if he attacks South Korea in an effort to impose his nuclear policy wishes. If he wins a war against South Korea and forces them to accept his nuclear ambitions, then he gets what he wants. In that case, his utility for the policy outcome will be $U_{\text{DPRK}}(1) = 1$, his

best possible result. Losing a war means having his nuclear capabilities wiped out. His utility for that outcome is 0, the worst policy outcome from his perspective. If he fights a war, however, there will also be a price to pay in lost life and property whether he wins or loses. Let's say he expects the cost will equal some value denoted as k (with the cost of war for the United States and South Korea denoted as k as well to keep the math simple although in reality they would surely differ from the DPRK's expected costs). Assume $k > 0$.

Because war carries costs, if Kim Jong-Un were to start a war and win it, his total utility for getting what he wants on the nuclear issue less the price he would have to pay is $1 - k$. Losing a war, then, gives him utility worth $U_{\text{DPRK}}(0, k) = 0 - k$ or just plain $-k$. Now, depending on how big the cost is likely to be, it is possible that $1 - k$ is still bigger than some proposed compromise X , but it is also possible that $1 - k$, the utility for winning a war, is smaller than X . In fact, we should expect that X is picked strategically by the US president to offer the least that the North Korean government would accept provided that this minimum compromise X is also a deal that the US government will accept.

It is well and good to realize that a war can be so costly that $1 - k$ can be smaller than X , but that is only part of the story. Besides not having complete control over the costs of a war—Kim Jong-Un's adversaries have a lot to say about how much force they use in response to an attack—he also does not have complete control over his chance of winning or the deal that is offered. There is a probability he will win and a probability he will lose. To understand how he might decide between war and a compromise agreement, we must also consider probabilities.

Probability

We know what the value for success or failure would be for Kim Jong-Un, but what he expects to derive from a military strike depends on whether that action succeeds or not. There is some probability, denoted p , that North Korea would prevail if it used force, and there is some probability, $1 - p$, that it would lose. Probabilities always fall between 0 and 1 by definition. What is more, the sum of the probabilities across all of the possible outcomes (such as various degrees of victory and compromise) must equal 1. That means that we are certain that one of the outcomes must occur although we do not know

which one. That is why the action is risky.

To keep matters manageable, we assume there are only two possible outcomes from a North Korean-initiated war against South Korea in which (as we assume) the United States would actively participate in fighting back against the DPRK: the DPRK's total victory (probability p) or total defeat (probability $1 - p$). Since $p + 1 - p = 1$, I am leaving no room in this analysis for any other, intermediate outcomes (say $p_1, p_2, \dots p_n$).

Combining Probability, Costs, and Benefits

Before deciding whether to launch a military strike against South Korea, Kim Jong-Un, along with other North Korean decision makers, presumably would evaluate the likely consequences of their action. Such an evaluation can be made by using the notion of expected utility. Expected utility calculations consider the utility associated with alternative outcomes and weights those utilities by the probability that each will arise. It is a way to work out calculated risks or to solve beforehand for what to expect will happen following a course of action. For example, if you spend \$1 to bet that a coin will come up heads when flipped and you have a chance to win \$2 if it does, your expected utility from the bet is equal to the probability that the coin comes up heads ($p = 0.5$) times the \$2 you win if it comes up heads, less the cost of the bet (\$1) plus the probability that the coin comes up tails (0.5) times losing the bet and, therefore, losing the dollar it cost to make the bet. That long statement can be restated quite precisely and briefly as $EU|Bet\ Heads = 0.5(\$2 - \$1) + (0.5)(-1) = 0$.⁸ That means, continuing with our assumption that utility is linear with preferences, that this is a "fair" bet. If the prize for winning were more than \$2, it would be an attractive gamble. If the prize were less than \$2, odds are that you are better off keeping your \$1 rather than making a bet.

Expected utility estimates allow leaders to focus ahead of time on the expected consequences of their actions. In risky situations, they cannot know for sure what the actual consequences will be until after they have acted, and then it is too late to choose differently. By assessing the alternative consequences that might arise from a course of action (whether trivial like heads or tails or momentous like war or peace), decision makers can compare the expected costs and benefits of those consequences with the expected costs and benefits associated with alternative courses of action. Because costs and

benefits are multiplied by their probability of occurring, the resulting value equals a stakeholder's best guess as to how much it values right now what it thinks it will end up with later by pursuing this or that course of action. In our North Korean example, this is equivalent to the following expected utility calculation if the North attacks the South:

$$EU(\text{DPRK}|\text{Attack ROK}) = p(1 - k) + (1 - p)(0 - k) \quad (3.2)$$

We can also look at the expected utility of war from a US Republican president's perspective. This is important to do because the way the problem is structured here, the president's administration will only make a proposal that it expects will make it better off than fighting a war initiated by the DPRK. To pick the right proposal, it needs to know its own value for a war so that it can pick a compromise that is no worse than fighting a war from the US perspective. The war-fighting strategy comes with risks (probabilities) and costs as well as prospective gains for the US government just as it does for the DPRK government: $EU(\text{US}|\text{Strike}) = p(0 - k) + (1 - p)(1 - k)$.

Remember p is the probability the DPRK wins the war and so $1 - p$ is the probability that the United States wins. Recall also that that the US utility for position 0, $U_{\text{US}}(0)$, equals 1, and its cost from a war is k . By expanding each of these expected utility equations and then simplifying we discover that for the DPRK, the expected utility from initiating an attack is equal to $p(1 - k) + (1 - p)(0 - k) - p - k$. For the United States, the new president's expected utility calculation reduces to $p(0 - k) + (1 - p)(1 - k) = 1 - p - k$.

Rational decision makers, as we learned in [chapter 1](#), choose among actions based on what they believe will yield the best results. That means that they must be able to connect alternative outcomes by a relation of preference, their preferences must be transitive, and they act on their preferences while also taking their beliefs or perceptions about probabilities and other constraints into account. Ignoring for the moment Kim Jong-Un's calculations, we can see that the choice of a rational American policymaker with a preference at position 0 on the nuclear issue about what compromise, if any, to offer will depend on the decision maker's utility for the compromise and the utility expected from offering so little that North Korea chooses war over compromise. Recall that the utility for the United States of a compromise at position X on the policy scale is $U_{\text{US}}(X) = 1 - X$. The US president will, therefore, prefer a compromise if the expected benefit from a

compromise ($1 - X$) is at least as large as the expected utility from fighting with North Korea to defend South Korea. This is equivalent to saying that the United States is expected to compromise if $1 - X \geq 1 - p - k$; remember that the closer the proposal X is to 0 (the smaller X is), the better it is for the United States (and so, the easier it is to compromise). If $1 - X < 1 - p - k$, then the United States expects to be better off by fighting.⁹ Rearranging terms to isolate the most generous compromise position X ($1 - X = 1 - p - k$) that will still prompt the US pursuit of a negotiated settlement, we see that the United States prefers a compromise to avoid a fight provided that $p + k \geq X$.

In plain English, this means the US president is predicted to offer the smallest policy concession that avoids the risk of defeat and the cost of war. The largest that compromise can be is equal to the probability of defeat plus the expected cost of fighting. But will Kim Jong-Un also prefer this proposed compromise to attacking? We can find the answer to that question by comparing his value for X to his expected utility from war. We know what he expects from war: $p - k$. A compromise that gives him at least as much or more than he expects to get out of a war will be attractive to him. So a compromise X will prove attractive to Kim if $X \geq p - k$.

Here we can see that the simple expected utility calculations have given us a way to predict American and North Korean action. To avoid war, and in keeping with the logic of expected utility reasoning, we hypothesize that the following must be true to avoid a war between the United States and ROK against the DPRK: $p + k \geq X \geq p - k$; that is, the US and South Korean governments must expect to do better with a compromise than by fighting a war and the same must be true for the North Korean government. For example, suppose the US probability of success in a war ($1 - p$) is 0.75 and the expected cost to the United States and South Korea if there is a military strike (k) is 0.20. Then the US expected utility from the use of military force is $0.75(1 - 0.20) + (0.25)(0 - 0.20)$, which equals 0.55. To decide not to attack in this case, a compromise would have to be worth at least 0.55 to the United States. Because the US utility is equal to $1 - X$, that means that the compromise with utility 0.55 would be located at position 0.45 or less on the policy scale for the United States to select compromise over risking an attack.

We can also see how the policy compromise that would be acceptable to the United States changes as the probability of success changes or as the expected costs associated with an attack change. Suppose the US chance of success is 0.50 instead of 0.75. Then the expected utility from a military

strike is $(0.50)(1 - 0.20) + (0.50)(0 - 0.20) = 0.30$, and so in this case, the United States would take a deal at position 0.70 on the policy scale rather than gamble on a military strike. An outcome at position 0.70 on the scale is not nearly as good for the United States as the outcome at 0.45 in the previous example. If the probability of victory is 0.75, the United States would reject a compromise at, say, 0.50 on the policy scale, but that is a compromise the United States would gladly accept if it thought the chances for success with a military strike were only 0.50, holding the costs constant at 0.20.

But what if the costs were expected to be much higher? Suppose the United States believes its chances for success following a North Korean military strike is 0.75 but that success will come at a high price—say, 0.80. This high cost might make sense if US and South Korean decision makers believed that Kim Jong-Un would use a nuclear weapon to try to get his way in a war with the South. This is an unlikely scenario. As we will see later, nuclear weapons can be effective as a deterrent, but when both sides have them it just about never makes sense to use them to promote victory. Anyway, continuing with the high cost scenario, the expected utility from the use of force is $(0.75)(1 - 0.80) + (0.25)(0 - 0.80) = -0.05$. In this case, the United States would prefer any compromise, including giving in to the North Korean regime, over a fight. After all, the worst outcome for the United States has a utility of 0, and 0, in this example, is higher than the expected utility from a war. Even with a high probability of success, the United States would cave in to Kim Jong-Un's position in this hypothetical last example because of the very high expected costs of fighting if Kim had a credible threat of war. We can see from these examples that the choice of actions of American political leaders is likely to be highly responsive to their perception of the chances of success and also of the anticipated costs associated with an attack. We can also see why the United States maintains a significant retaliatory capability in South Korea and in the waters offshore. The United States and South Korea have a vested interest in deterring North Korea and that means keeping the US-ROK prospect of victory high, their expected costs as low as possible, and making the North's expected cost high enough to discourage them from taking military action. If the DPRK's cost of war were also 0.80, following a retaliatory US-ROK strike, then under the earlier assumptions their expected utility from war ($p - k$) is $0.25 - 0.80 = -0.55$, well below X , the compromise = 0, the US ideal point.



TRY THIS

Find the probability of success at which the United States would be indifferent between compromising and attacking if the costs of an attack are expected to be 0.80 and the compromise available is known to be located at 0.2 on the scale. Do the calculation again if the compromise is known to be at 0.6 on the scale.

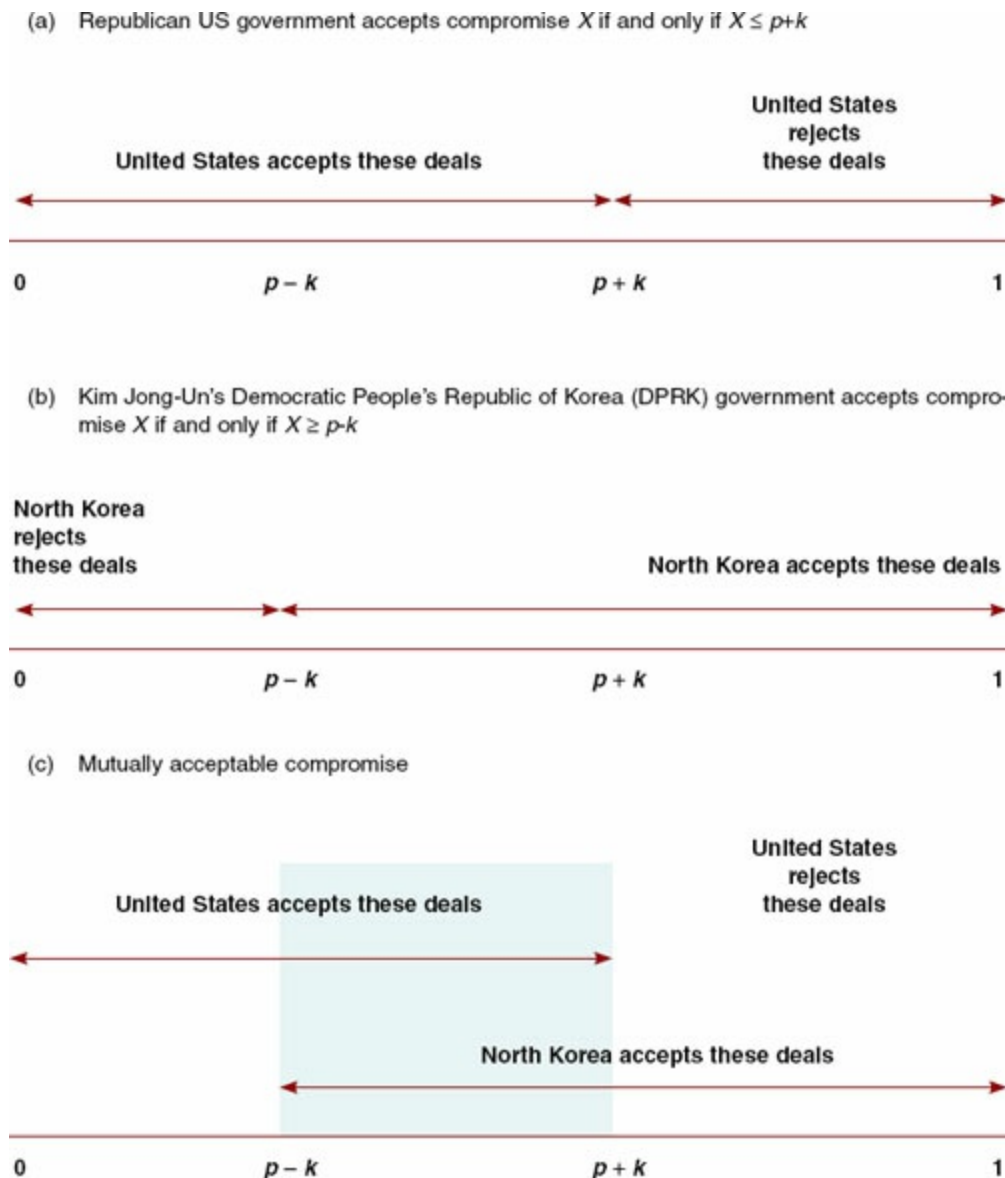
Of course, it takes two parties to make a deal. What does Kim Jong-Un's calculation look like? The United States has an incentive not to offer a deal any better than $p + k$. North Korea will not accept a deal that offers less than $p - k$. Assuming k is not excessively large, [figure 3.9](#) depicts the points on the policy scale at which the United States will accept or reject a compromise; the top of the figure shows the range of acceptable compromises for the United States with a Republican president. The middle part of the figure does the same for Kim Jong-Un and North Korea. Finally, the bottom of the figure puts the two together, showing the range of outcomes at which each party will agree to compromise. We can see that a range of points exists that would produce an agreement. We can also see, as illustrated, that there are possible compromise offers that will be agreeable to one party but not to both; in these cases, an attack seems likely.

Let us assume that p , the US chance of defeat, is no more than 0.25 and that the cost of war for the United States would be no more than 0.20. Then, as we saw, the most the United States would offer is $X = 0.45$ on the nuclear scale—that is, the Russian position. For Kim Jong-Un to accept this deal, 0.45 must be at least as good as his probability of winning (p) minus his cost of fighting (k). If the United States offers 0.45 on the scale and Kim's probability of victory is only 0.25, then even if his expected cost from fighting were 0 the deal is better for him than a fight ($X = 0.45$ and $0.45 > 0.25 - k$ for any nonnegative cost from fighting). That, of course, would not be lost on the United States and South Korea. If Kim Jong-Un's chances of victory were so small, the deal that would be offered would not be 0.45 although the United States and South Korea can accept that deal. The deal that would be offered is the compromise that gives the greatest expected utility return to the United States and ROK, and that means the offered compromise is the smallest compromise the North Korean's could accept,

which in this case is clearly less than 0.25 (the policy stance of the Democratic Party in the United States) since k for the DPRK is surely greater than 0.

We can now see why the North Korean government has an incentive to build a nuclear capability and a strong conventional military as well. That helps raise their probability of victory and, perhaps, also reduce their expected costs of war. The combination of an increased chance of victory and decreased costs makes them appear more willing to wage war and, therefore, may increase their bargaining leverage. Furthermore, if the North Korean leadership's utility function is not linear as we have assumed, then the range of bargains they would accept could expand or narrow, depending on how much they value or fear gambling on their future. Indeed, if it narrowed enough it is possible that there is no mutually acceptable compromise. Imagine, for instance, that $U_{\text{DPRK}}(X) = X^2$ instead of X . Remember, if the US chance of victory is 50:50 and the cost of a war is 0.20, then the United States could live with a deal at 0.70 and a risk-neutral North Korean government ($U_{\text{DPRK}}(X) = X$) would accept as little as 0.30 on the nuclear policy scale to avoid war. But if $U_{\text{DPRK}}(X) = X^2$, then an acceptable compromise X offered by the United States needs to meet the following condition, assuming North Korea's chance of victory in a war is 0.50 and its expected cost (the utility for which is also the square of its value) is 0.20: $U_{\text{DPRK}}(X) \geq 0.50(1-0.20)^2 + 0.50(-(0.20)^2)$. Solving for the deal the United States must offer to avoid war, we find that the best offer the United States can make gives the DPRK $U_{\text{DPRK}}(X) = 0.32 - 0.04 = 0.28$. Since $U_{\text{DPRK}}(X) = 0.28$, which equals X^2 , the war-avoiding compromise is $0.28^{1/2}$, which is 0.53. So, if Kim Jong-Un has this more risk-acceptant utility function, then the best deal the United States could hope to strike is a little better for North Korea than even the Chinese government's position which, you will recall, is 0.55 on the scale. A deal remains possible in this example—but one much worse for the United States. If the US leadership were also willing to gamble, so that $U_{\text{US}}(X) = 1 - X^2$, then the United States would not agree to a compromise greater than 0.47 on the nuclear issue scale. In that case, with both sides prepared to take significant risks, no deal is possible. The most the United States will concede is 0.47, and the least the Kim Jong-Un government will take is 0.53.

FIGURE 3.9 Compromises Acceptable or Unacceptable to the United States



All of which is to say that policymakers and their advisers must be careful to make realistic assessments of their adversary's expected gains and losses before deciding on any specific compromise to offer. And in being careful, they must be attentive to the possibility that their adversary is feigning recklessness—a willingness to risk war—as a bluff that might extract bigger concessions than are actually required to strike a deal with them. Remember that the North Korean government under the late Kim Jong-Il took limited

military actions from time to time that seemed to some observers to reflect irrationality. But we now see that acting as if one does not fear great risks, while dangerous, can also reap benefits for those who seem to be reckless (Schelling 1965; Powell 1990). Gambling in this way is not logically different from, say, bluffing about a poker hand. It is just that the prospective losses *and* gains are vastly bigger. Bluffing is just a way of exploiting uncertainty. As we will see in more detail later, not every conflict has a readily identified negotiated solution. There are at least three conditions—(1) uncertainty, (2) lack of credible commitment, or (3) an indivisible, winner-takes-all issue—that can prevent the discovery of a compromise solution to a dispute (Fearon 1995).

Beliefs about the relative size of the probabilities and costs will certainly help influence the choices made in any dispute. Notice that I said *beliefs* and not some “objective” determination of their true value. The true probability of success or failure cannot be known in advance. Likewise the true costs cannot be known in advance. We cannot *know* how different leaders will respond for sure because so many factors influence their choices. For example, are North Korea’s leaders the sort of people who respond better to rewards or to punishments? Are they prone to gambling on their country’s future (e.g., $U_{\text{DPRK}}(X) = X^2$), or are they likely to be cautious when it comes to engaging the United States and South Korea in a fight (e.g., $U_{\text{DPRK}}(X) = X^{1/2}$)? Do they believe the American president cannot muster the domestic political support that would be needed to launch a retaliatory strike, making them think that the US leadership’s subjective probability of success, given political constraints, is low or that the threat just is not credible? Or do they believe that a lame-duck president would risk a strong negative domestic reaction or that a new president, with years to recover from the possible electoral consequences of an unpopular action, would act boldly (Gaubatz 1991; Fordham 1998, 2002; Smith 2004)?

The reason there is a debate over how best to approach North Korea is that different decision makers hold different views about the likely answers to these questions. No one knows for sure how the DPRK’s leaders or the American electorate will respond—perhaps not even those who must make the decisions. It is one thing to say that you will or will not back down under pressure, and it is quite another to face the actual pressure and then have to choose what to do. Although relative power or influence may help shape probabilities, probabilities are subjective; therefore, their estimation reflects

prior beliefs or perceptions about people and circumstances. Those whose life experiences, for instance, have taught them that people respond more positively to avoiding costs than to gaining benefits will be likely to believe that Kim Jong-Un will respond to coercive pressure, whether through sanctions or military force (George 1971; Kahneman and Tversky 1984, 1986). Conversely, those who have observed that “you catch more flies with honey than with vinegar” will want to extend a cooperative hand to the North Korean leadership in the hope and expectation that this will induce them to reassess their nuclear program and agree to cooperate as well. Or, put differently, what a US president thinks the chances of success are may be entirely different from what Kim Jong-Un thinks the US chances are.

Whichever action is chosen—compromise or military force—we can be confident that the choice will be made after carefully thinking about the odds of success, the value of success and failure, and the costs of any action. Indeed, you can make just such estimates yourself, and that way you can be your own intelligence agency. The precise values for which compromise is feasible are not known, but you might try approximating these values based on, for example, the relative military might of the rival regimes or of each country plus its allies, or the relative size of their economies or government tax revenues or some other indicator that you believe accurately reflects the odds of victory and the factors that impact costs in lives, property, and political fallout. With such estimates, you could specify a range of feasible settlements and then see how your calculations match up with each side’s rhetoric.¹⁰

SUMMARY

This chapter examined nonstrategic decision making regarding North Korea’s nuclear policy. We have seen that the distribution of power and preferences can shape policy outcomes and that security can be conceived of in terms of proximity to the median voter position. This gives us a way to think about security-maximizing neorealist outlooks in a rigorous way that does not ignore the possibility that states have preferences about outcomes beyond their national security or power.

The median voter theorem provides a powerful tool for examining prospective foreign policy decisions when issues are one-dimensional. It is not an appropriate tool, however, when two or more issues are inextricably

linked together. In such cases, win-set models provide a way to think about how issues might be resolved through coalition formation. Win sets are a way to model the proximity of policy preferences among contending decision makers across dimensions. We have seen that the median voter position on each dimension need not be in a win set, that is, be part of a winning coalition. A range of outcomes is possible. Thus, we have devised a way to predict the likely policy outcome when issues are treated separately and when they are linked together.

Finally, this chapter introduces expected utility calculations. By comparing the expected utility associated with alternative courses of action, we can predict which path a decision maker is likely to take. As we have seen, this depends not only on the value of this or that approach to a problem but also on the probability of various outcomes arising and on their costs and benefits. These are the fundamental building blocks of a strategic approach to international affairs.

KEY TERMS

anarchy

circular indifference curve

expected utility

ideal point

indifference curve

median voter theorem

nonaggression pact

preferred-to set

prior beliefs

salience

single-peaked preferences

spatial models

unidimensional

utility

win sets

Answers:

1. b. It is possible to be secure without being powerful provided that policy choices ensure that the weak state is part of the median “voter” coalition.
2. c. Making sure that a majority of the international power will support you on any issue assures security. This is achieved on a one-dimensional issue by locating at the median “voter” position; on multidimensional issues, many carefully chosen positions can assure always having at least majority support.
3. a. It is neither the case that treating contentious issues one at a time assures security or success in finding a negotiated settlement nor is it always the case that linking issues leads to a successful compromise or to security. Whether to link issues or treat them separately depends on individual interests and itself is a strategic question.
4. b. No, difficulties in credibly committing to a deal can preclude a negotiated agreement. Likewise, if an issue is indivisible, it is difficult or impossible to reach agreement.

¹ I use the terms participants, parties, actors, decision makers, policymakers, stakeholders, and players interchangeably. Unless stated otherwise, they all are intended to refer to any individual or group exerting influence over a policy choice.

² The distance between points does not depend on the direction of movement. That is, distance is always expressed as a positive value, hence the use of the absolute value sign.

³ As we will see in [chapter 12](#) when we apply the selectorate theory to foreign aid, this is exactly the purpose to which we should expect aid to be put and, indeed, it is the rational expectation of donors as well as recipients and so represents part of an equilibrium aid strategy.

⁴ An indifference curve identifies all of the points on an x and y axis for which the value of the combination of outcomes on the two dimensions (x, y; say some specific nuclear policy combined with some specific amount of foreign aid) is equal. It is called an indifference curve because the person whose indifference curve it is values every point on the curve exactly equally and so he or she is *indifferent* among the mix of outcomes on the curve.

⁵ This discussion assumes the two dimensions are equally salient or important to the stakeholders. If the salience for the two dimensions is not equal for any stakeholder, then that stakeholder will have an elliptical, not circular, indifference curve. To keep the calculations from getting too complex, I ignore this possibility here.

⁶ Taking all possible outcomes into account, the sum of the probabilities associated with

each of the outcomes must be 1.

⁷ The rate at which utility increases with some “objective” or external assessment of value tells us how willing a person is to gamble or how cautious they are about taking chances. Exponentially increasing utilities are consistent with people described as **risk acceptant**. An example is as X gets closer to what one wants, the utility for X might equal X^2 . The key feature of a risk-acceptant utility function is that the utility of more and more attractive outcomes increases at an increasing rate. Logarithmically increasing utilities are consistent with people who are described as **risk averse**. Another way to think about this is that the slope of a logarithmic curve is always increasing but at a decreasing rate so the marginal gains from a bad outcome to a little less bad outcome is larger than the marginal gain from a really good outcome to a little better outcome. A linear utility function denotes risk neutrality—neither favoring nor opposing taking chances—and in such a function utility values are increasing as outcomes become more attractive but at a constant rate. To minimize complexity, we will assume decision makers are **risk neutral**, but this is not necessary for any of the tools discussed here.

⁸ The symbol $|$ is read “given.”

⁹ I have assumed that if the value of attacking and the value of a compromise were equal, then the United States would choose to avoid any uncertainty about the size of war costs by offering a compromise. There are technical reasons for this to be so. In general, I will assume that when a costly or risky outcome and a sure thing outcome have the same expected utility then the choice will be the sure thing result. In practice, exact equality is likely to happen with zero probability.

¹⁰ Data on relative military capabilities can be found on the Correlates of War Project website (www.correlatesofwar.org) and at the EUGene website (www.eugenesoftware.org). Gross national product (GNP) data can be found at the website for Penn World Tables (<http://pwt.econ.upenn.edu/>) and the World Bank (<http://data.worldbank.org/indicator>) where you can also find data on government tax revenues and many other indicators.

4

An Introduction to Game Theory



US President Barack Obama (left) looks through binoculars toward North Korea from Observation Post Ouellette during a visit to the Joint Security Area of the Demilitarized Zone (DMZ) near Panmunjom on the border between North and South Korea on March 25, 2012. Obama arrived in Seoul earlier in the day to attend the 2012 Seoul Nuclear Security Summit that was held on March 26 and 27.

OVERVIEW

- Game theory is a powerful form of mathematics that allows us to estimate how stakeholders are likely to interact strategically in the arena of international and domestic politics. We look at two kinds of games: (1) cooperative and (2) noncooperative.
- We focus especially on noncooperative games because international interactions often mirror the conditions of such games.

The **prisoner's dilemma** game demonstrates a type of interaction in which either the sequence of play is unknown or the players move simultaneously.

- **Extensive form** games are a way to represent noncooperative games. They allow us to highlight the sequence of action. By examining best replies to the expected moves of other players at each step in the decision-making process, we can learn to solve these games and find out what is expected to happen. The tool we use to do that is called **backward induction**, which allows us to arrive at the **subgame perfect Nash equilibrium**.

Spatial models provide a powerful way to think about how to identify international policy agreements that are secure and may be stable. Spatial models, however, are static. They do not consider that players negotiate and engage in strategic behavior. It is very hard to know any player's true ideal point on issues. When issues are multidimensional, for example, as in [figure 3.6](#) in the previous chapter, stakeholders have an incentive to misrepresent their wishes, pretending to be more extreme than they may actually be. If you go back to [figure 3.8](#) in [Chapter 3](#), you will see what I mean. The US Republican Party, for example, takes an extreme position relative to the status quo. Even Kim Jong-Un's position in [figure 3.8](#) is not at the nuclear status quo established by his father, nor is he at the foreign aid status quo. By staking out an extreme position, Kim Jong-Un helps create a very large preferred-to set for himself. This means that when issues are linked, there are many more compromises he can agree to than if his presumed ideal point were closer to the status quo. By appearing extreme, he gives himself more bargaining leverage, more room to maneuver. Others may look at his position and consider that it may have been chosen to gain a strategic advantage—that what he really wants is a massive infusion of foreign aid money. This suggests that his policy posture might not be his sincere desire. Rather, it may be that his policy stance was chosen endogenously, meaning it was determined by him strategically, based on the logic of the situation, to influence how others negotiate with him. We saw a similar idea of endogenously chosen postures in [chapter 3](#) when we looked at

what the compromise deal looked like that the United States and North Korea could accept. Recall that X—the compromise—was picked to satisfy the conditions necessary for a compromise rather than being chosen to reflect what either party most wants.

Assumptions Check

1. Do rational people always pursue what they most want? Whether you answer yes or no think about explaining why.
2. If you see me walk away from a soda (pop) machine drinking my least favorite drink from it is that proof that I am not rational?
3. Do quarterbacks or their head coach always call the play with the highest probability of scoring a touch-down if they are down to the one-yard line?
4. Can I make a move that my opponent perceives as probabilistic rather than sure if we compete in a single play of a game?
5. Do temporally prior events always cause later events, or can later events cause prior events?

See end of chapter for answers.

Just as spatial models provide a helpful but often incomplete perspective on foreign affairs so too do expected utility calculations by themselves. As intimated in the earlier discussion, we can say something about what the US leadership prefers to do based on the utility that is expected to be derived from a North Korean military strike against the South and based on the value of any given compromise, but the president of the United States alone cannot determine whether any particular compromise is acceptable to the key decision makers in North Korea, the Republic of Korea (ROK), or elsewhere. Expected utility calculations by themselves provide a way for us to place values on different feasible outcomes, but they are insufficient to solve the pattern of strategic behavior that the various parties to a dispute are likely to adopt to influence the choices of others. Indeed, the strategic maneuvering involved in influencing decisions by others is at the heart of international

affairs.

The best way to sort out strategic choices is neither just through the use of spatial models nor just by using a powerful decision theory tool such as expected utility calculations although each of these tools can help and each can play a part in analyzing strategic situations in a game theory context. Game theory is, I believe, the best available machinery for working out how stakeholders are likely to interact strategically in the international and domestic political arenas; it is a form of reasoning designed specifically to sort out strategic, as distinct from sincere, interactions. Strategy is all about figuring out what the other guy is likely to do and picking the best response to get as close as possible to the outcome you desire. Strategizing about interactions with friends and foes is the stuff of almost all international politics.

Game theory comes in two major forms: (1) cooperative and (2) noncooperative. **Cooperative game theory** assumes that promises made between actors are binding, meaning they will be kept. Cooperative game theory is especially useful for working with problems in which no player has an incentive to renege on promises or in which contracts are assured of being enforced. This is not the reality for most international problems. **Noncooperative game theory** certainly allows the possibility that decision makers will cooperate with one another but only when cooperation is in their self-interest. In noncooperative games, promises are not inherently binding. Just because someone says they will do something doesn't mean that they will! The credibility of commitments depends on those commitments being of sufficient value to the person making them that it is in their interest to honor their promises at the time that a choice must be made. Sufficient value means they don't expect to do better by breaking their promise.

Noncooperative games rivet our attention on player incentives (how things of value are going to be distributed as a function of strategic choices), including incentives to say one thing and do another (i.e., to bluff). So these games typically draw attention to the likely punishments for lying (the frank term for bluffing) and also sometimes for the ease or difficulty of working out whether a player cheated, made an honest mistake, or tried to do what that player said he or she would do (the problem of monitoring). To get an idea of how game theory works, including its ability to surprise us, let's start with one of the simplest and best known of games: the prisoner's dilemma.

PRISONER'S DILEMMA: ILLUSTRATING A SIMPLE GAME

The distinction between cooperative and noncooperative game theory is poignantly illustrated by describing how rational, self-interested actors interact in the situation known as the prisoner's dilemma. This classic two-player game is played out almost any night of the week on just about any television police show. The story is that two confederates in crime have been arrested. Each is held in a separate cell with no communication between them. The police and the district attorney do not have enough evidence to convict both of them of the serious crime they allegedly committed. The authorities do have enough evidence to convict them of a lesser offense. If the prisoners cooperate with one another by remaining silent during their separate police interrogations, they will each be charged and convicted of the lesser crime. If they both turn on the other and confess, they will each receive a stiff sentence. However, if one confesses, turning state's evidence, and the other does not, then the former will get off with only a light sentence as part of a plea bargain, whereas the latter will be put away for a very long time.

Let's put the value of the payoff—in this case, the sentence each receives—when neither confesses (i.e., when they *cooperate* with one another, keeping their mutual promise of silence) at R , which stands for reward. Let's set the value of the payoff that each receives if they both confess (i.e., when they both *defect*) as P for punishment. If one prisoner cooperates by remaining silent while the other defects by confessing, then we say that the cooperator—who stays silent under police pressure—gets the sucker's payoff (S) and the defector who squeals gets a payoff called the temptation (T).

In the game of the prisoner's dilemma, T is worth more than R , which is worth more than P , which is worth more than S (so $T > R > P > S$). Later, when we consider repeated play in the prisoner's dilemma in [chapter 7](#), we will need an additional assumption; for now, I focus on just a single play of the game. [Table 4.1](#) displays the possible outcomes of the prisoner's dilemma. Notice it does not specify the order of play. This is because, under the rules of the game, the players (A and B) each must make their choices without knowing what the other player's choice will be. (Remember, they are being held in separate cells with no communication possible.) In essence, moving simultaneously is equivalent to choosing what to do under uncertainty. As we will see, this does not influence play in the single-shot

game, but it does if the game is repeated.

There is no dilemma if the game in [table 4.1](#) is cooperative. For example, if before being captured the two criminals have promised one another that, in the event they are caught, they will cooperate with one another and not with the police; then they will carry out their promise even though, as we will see, it is against their individual interest to do so. Each has promised not to turn state's evidence against the other. The result is that each receives the payoff of R , a relatively light sentence. What if they have made this promise to one another but each criminal, Chris and Pat, doubts the sincerity of his or her colleague? After all, each knows that the district attorney is willing to accept a plea to a lesser offense (worth $T > R$) for turning on his or her confederate if the confederate in crime fails to confess as well. How do we solve the game under these conditions—when promises are not binding so that they matter only if they advance the player's individual interests?

The game can be solved by finding the **Nash equilibrium**. The Nash equilibrium is the set of strategies from which no player has a unilateral incentive to switch; that is, any choice of actions a player has that is not included in a player's strategy are expected to make the player worse off. A strategy is defined to be a complete plan of action for playing the game; that is, it reflects what each player will do, conditional on every possible move by the other player or players, including moves that eventually do not get made. For example, the prisoner's dilemma when played once offers only two possible strategies to each player: cooperate with your confederate in crime or defect. This leads to four possible combinations of action: (1) cooperate if you think the other player will cooperate, (2) cooperate if you think the other player will defect, (3) defect if you think the other player will cooperate, and (4) defect if you think the other player will defect. If the game were repeated—that is, played over and over again (serial criminals)—then strategies can get quite complicated. Chris, for instance, might always defect, always cooperate, start off by defecting and then cooperate, start off by cooperating and then defect, alternate between cooperating and defecting, randomly choose between cooperation and defection each time the game is played and on and on. We will see in [chapter 7](#) what the strategies are likely to look like when this game is repeated indefinitely.

You can see that the idea of Nash equilibrium can get complicated, but you can also see what an appealing concept it is. Why, after all, would any rational person choose a course of action that they think or expect will leave

them worse off than some other course of action? Choosing their strategy to be part of a Nash equilibrium ensures that each player acts to advance her own interests, doing what she believes is best for her!

TABLE 4.1 The Prisoner's Dilemma

	Pat cooperates	Pat defects
Chris cooperates	R, R	S, T
Chris defects	T, S	P, P

Note: $T > R > P > S$. T – temptation; R – reward; P – punishment; S – sucker's payoff.

The idea of Nash equilibrium does not apply to cooperative game theory. In that version of game theory, players may have an incentive to switch strategies to something that is better for them, but they are not permitted to once they promise not to. The idea of a Nash equilibrium was developed exactly for the purpose of finding a way to solve noncooperative games in which players can break their promises if that is best for them. This is fundamental because rational actors do what they *believe* is in their *own* best interest, and they anticipate that all other players, being intelligent and rational, will act that way too. Rational actors do not do what they think is in the collective interest if they think that doing so will harm them relative to some other action they could choose. This is true in part because rational actors anticipate that no one will select a strategy that leaves that person worse off than he or she would have expected to be by choosing a different strategy.

Collusion among players is, of course, possible but only if each of those colluding or cooperating expects to benefit from doing so. In the end, after the game is over, especially when decisions must be made under uncertainty or when players must choose among risky actions, some player might be worse off than would have been true if he or she had acted differently. That does not matter. Play proceeds based on what decision makers know and believe at the time they choose and not with the 20/20 hindsight that comes from reevaluating choices after the fact when it is too late. In the jargon of rational choice theory, people act *ex ante*, before they know the consequences, and not *ex post*, with hindsight.

To find the Nash equilibrium, Chris (for example) can start by considering what Chris's best move is if Pat is expected to choose to

cooperate. Likewise, Chris considers what the best move is if Pat is expected to choose to defect. By examining the payoff implications for Chris resulting from Pat's potential choices, Chris can determine which move will be most advantageous (although Chris cannot know beforehand what Pat will ultimately choose to do). That is, Chris is constructing a complete plan of action, deciding what to do *if* Pat is expected to defect and what to do *if* Pat is expected to cooperate. Of course, Chris can also calculate from Pat's viewpoint, seeing what would be best for Pat if Chris cooperates or defects. Doing so helps Chris form an expectation about what Pat will do and, therefore, what Chris ought to do in response. In this way, both players can formulate their complete plan of action—their strategy—for the game provided they are right in assuming that the other player will do what he or she believes is best for him or her; that is, that the other player is rationally self-interested.

The prisoner's dilemma is an interesting way to look at problems of cooperation and conflict because it has a surprising implication. Regardless of what move Pat might make in this game, Chris is better off defecting than cooperating. If Pat cooperates, Chris will earn T by defecting and only R by cooperating. Because T is more valuable to Chris than R , it is in Chris's self-interest to defect if Pat is expected to cooperate. If Chris assumes that Pat will defect, then Chris earns P by defecting, which is not very good but still better than choosing to cooperate and thereby only earning S (the worst result). Thus, by defecting Chris is guaranteed either a stiff prison sentence (P) or a chance to get off with only a light sentence (T), and Chris avoids altogether the possibility of receiving a very long prison sentence (S).

The same logic holds for Pat. Whichever action Chris chooses Pat is better off defecting. Defection is each player's **dominant strategy**. It is dominant because defection produces the best result for the player compared to cooperating regardless of which choice the other player makes. This is true even if they promised beforehand that they would cooperate. This is precisely the limiting feature of cooperative game theory and the advantage of looking at problems through the lens of noncooperative games. When push comes to shove, decision makers are likely to do what they think is best for them even if it is different from what they promised they would do.

The source of the dilemma in the prisoner's dilemma follows from what happens when each player pursues his or her best interests. In consequence of that pursuit, each player ends up with the second-worst outcome (P), a stiff

prison term. Had they been able to coordinate their choices and cooperate with one another, they could have guaranteed themselves a lighter sentence, the game's second-best outcome (R). By choosing rationally, they each suffer an outcome that is worse than what they would have gotten if they had cooperated. The trouble is that if either had cooperated in the hope that the other player would also cooperate, ensuring each a payoff of R , the cooperating player probably would be in for a rude awakening. The other player does not have an incentive to cooperate as well. Yes, it is true that if they both cooperate they are both better off than if neither cooperates, but the player who cheats on any promise to cooperate benefits from cheating ($T > R$) and so can be expected to exploit the good intentions of his or her confederate in crime. This type of outcome, in which players could have been better off if they could find a way to coordinate their choices, is said to be Pareto inferior. In this case, their choice of action is also **Pareto efficient**, meaning that any change in strategy makes at least one player worse off than they currently are. As we can see in the prisoner's dilemma, any unilateral change in action leaves the changer worse off. In contrast, in a Pareto-improving outcome, as we already know, no player is made worse off and at least one player is made better off. Joint cooperation is Pareto improving, but the players do not seem to have a rational path to get there because, no matter what the other player is expected to do, each finds that defecting dominates cooperating. Defection earns a bigger reward. This is the dilemma. If international politics frequently involves situations like this, then it seems that conflict rather than cooperation would prevail. This is, in fact, exactly the meaning of one of the most common assumptions about international affairs; namely that the international environment is anarchic. Indeed, Kenneth Waltz, the founder of neorealist theory, argues that all of international politics is a prisoner's dilemma (1979, 109). Although, as we will see, that is not right; still it does highlight how crucial the risk of conflict can be (or is believed to be) in a noncooperative, anarchic environment.

The notion of anarchy is, in fact, equivalent to the idea that each nation (or leader) operates in a self-help environment in which there is no supranational authority with the right or power to enforce agreements between states. That is a pretty good description of the definition of noncooperative games. Anarchy implies that, as useful as the United Nations, the World Trade Organization (WTO), the International Court of Justice, and other such international institutions may be they cannot guarantee that

governments will follow through on their commitments if those governments conclude that they will do better by violating them. (In a later chapter, we see what this implies about the design of international institutions.) In short, international interactions typically mirror the conditions of a noncooperative game although often it is a game different from the prisoner's dilemma.

SIMPLE GAMES WITH MULTIPLE EQUILIBRIA

The prisoner's dilemma is but one of an infinite variety of possible games. There are seventy-eight games just involving a choice between two actions for each of just two players. These two by two games—and they are just the tip of the game theory iceberg—provide a rich array of ways to think about international affairs, including such well-known games as chicken, stag hunt, and battle of the sexes, as well, of course, as the prisoner's dilemma. The prisoner's dilemma has a dominant strategy, but many other games do not. Some have **multiple equilibria**, meaning that there are different ways to play the game that are consistent with Nash's idea of equilibrium: that no player can on its own follow a better strategy than the one it has chosen. Let's have a look at one of these multiple equilibrium games, battle of the sexes, before moving on. Doing so will help us see that rational actors can mix up their actions to influence the expectations of their rival, thereby improving their own welfare.

Table 4.2 shows the battle of the sexes game. It is so named to capture the idea that a husband and wife (two players) disagree about what they want to do in the evening. One prefers to go to the movies and the other prefers to go to the opera, but each prefers to go out with his or her spouse rather than go out alone. Battle of the sexes constructs a problem common in international politics. Both players want to coordinate with each other on the outcome, but each has a distributional advantage if the coordinated action results in his or her preferred outcome.

Sticking with Chris and Pat, now assuming that they each head a government that trades with the other, the actions available are to reduce greenhouse gas emissions (labeled as green) and to not reduce greenhouse gas emissions (denoted as not green). Chris is inclined to be green and Pat prefers not to be (perhaps thinking that being green is too expensive) but, because of trade penalties each can impose on the other if they do not agree on a common policy, Chris and Pat prefer to cooperate with each other rather

than go their separate ways, one being green and the other not. Going their separate ways will result in Chris excluding Pat's goods from Chris's market and Pat imposing a costly tariff on Chris's goods in retaliation. We will see examples of this problem in [chapters 8 and 10](#).

TABLE 4.2 The Battle of the Sexes

	Pat Green	Pat Not Green
Chris Green	4, 2	0, 0
Chris Not Green	0, 0	2, 4

To find the **pure strategy** Nash equilibrium(s) we ask if Chris (Pat) is better off choosing green for sure or choosing not green for sure if Pat (Chris) is expected to select green or not green. We see that if Pat is expected to choose green then Chris gains 4 by selecting green and 0 by selecting not green. If Pat selects not green, Chris is better off selecting not green to green, getting a payoff of 2 rather than 0. Because for ease of presentation I have made the payoffs symmetric—exactly the same decision confronts Pat that confronts Chris. We can see there are two pure strategy Nash equilibria: green, green and not green, not green. Clearly, Pat and Chris are each better off coordinating on one of these strategies than simply picking the action they like best (green in Chris's case and not green in Pat's). By coordinating, they avoid the costly tariffs that each might impose on the other, giving each of them a payoff of 4 or 2 instead of 0 depending on which action they coordinate on.

The game, however, has an additional third Nash equilibrium based on what is called a **mixed strategy**. The idea behind a mixed strategy is to choose actions probabilistically so as to neutralize the opponent's distributional advantage in selecting one action (green or not green) over the other. This can be done even if the game is only going to be played once. Imagine that Chris shows Pat a spinner such as we see in [figure 4.1](#). The dial surface is one-third orange and two-thirds green. We will see in a moment why these particular divisions were selected. The orange arrow will be spun by Chris who will then make whatever move is pointed to by the arrow: green if it lands in the two-thirds green area and not green otherwise. Pat is likely to do exactly the same although, given the symmetric payoffs, Pat's dial will be two-thirds orange (signifying a not green move) and one-third green. Okay, let's see how these divisions were chosen and what they do.

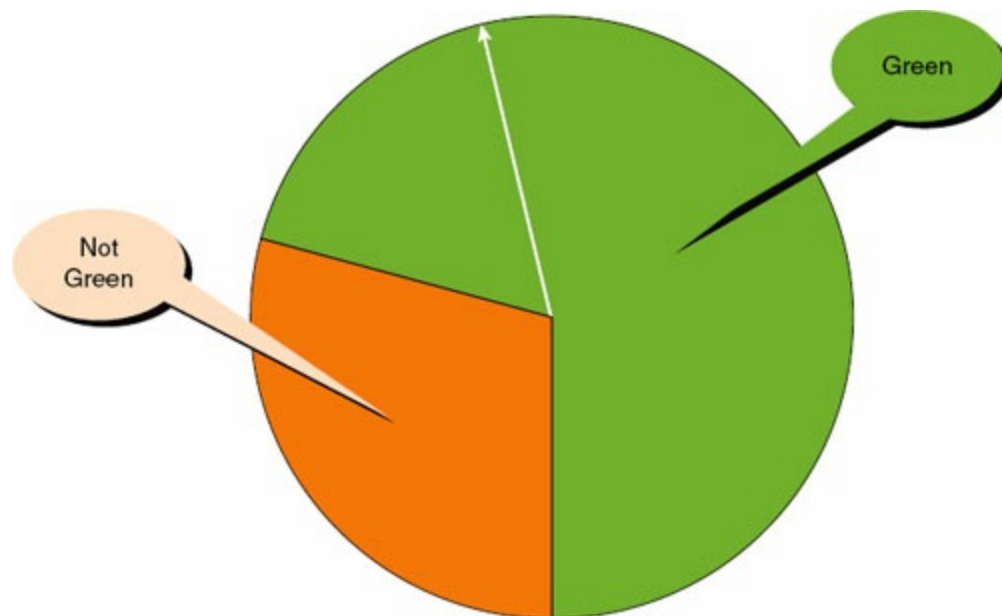
Chris realizes that Pat prefers coordination on not green because Pat gets a payoff of 4 if they both choose not green and only 2 if they go green. Chris wants to make Pat just as happy to select green as not green despite the disparity in the payoffs. Chris can do this by making a probabilistic choice based on the following calculations. Chris chooses a probability p that Chris will select green (the green area of the dial in figure 4.1) and a probability $1 - p$ to choose not green (the orange part of the dial). The value of p is selected to make *Pat's* expected utility from choosing green equal to *Pat's* expected utility from choosing not green:

Chris selects p such that $EU(\text{Pat}|\text{Green}) = EU(\text{Pat}|\text{Not Green})$

For Pat $(EU|\text{Green}) = p2 + (1 - p)0$; For Pat $(EU|\text{Not Green}) = p0 + (1 - p)4$

For Pat, given that Chris chooses Green with probability p : $2p = 4 - 4p$ so $p = 2/3$

FIGURE 4.1 Spin the Dial: Green or Not Green



Pat makes a comparable choice, selecting the probability with which it chooses green to be q such that q is the right amount to make *Chris* indifferent between green and not green. Thus, Chris's spinner is one-third not green and two-thirds green, and Pat's is one-third green and two-thirds

not green. This means that green, green will be chosen two-ninths of the time; not green, not green two-ninths of the time; and five-ninths of the time, Pat and Chris will fail to coordinate. What they have done is traded away part of the coordination opportunity to minimize the distributional tension. Each has an expected payoff of one and one-third. Satisfy yourself that choosing a different mix makes neither better off.

We see mixed strategies at work all the time in real life. If you watch football and you have wondered why coaches don't always call for the same play when their team is one yard away from scoring a touchdown the answer lies in mixed strategies. If the other team knew for sure which play will be called, then they would pile up all of their defensive players to defend against that play. Therefore, to improve the odds of scoring, coaches mix up what they do, forcing the defense to be spread across the goal line. In combat, deploying troops blocked in their progress by a hill may involve going around the hill from the left, the right, or going over the hill. Assuming all else is equal, a commander would want to mix the strategic choice so that the hill's defenders must spread their defense out, thinning it and reducing its effectiveness.



Nobel Prize winner in economics John Nash speaks at Princeton University where he is a visiting research collaborator. Nash, a mathematician, developed the Nash equilibrium solution concept that makes noncooperative game theory possible.



TRY THIS

Look on the web or elsewhere, and find out what the payoffs are in stag hunt and chicken. Do these games have a dominant strategy the way the prisoner's dilemma does? Do they have a mixed strategy? Can you work out what the mixed strategy looks like? Can you establish that it is a Nash equilibrium—that is, no player has a unilateral incentive to deviate from the mixed strategy?

Okay, we now know how to solve basic games for mixed strategy equilibria and for pure strategy equilibria in which actions are taken for sure rather than probabilistically. Doing so is helpful, but we can improve on this form of Nash equilibrium to eliminate threats or challenges by other players that simply are not credible. That is what we turn to next.

A Simple North Korea-US Nuclear Game: An Extensive Form Game

Very often noncooperative games are presented in extensive form (or sometimes using a timeline that lays out the sequence of choices). We have already seen in [tables 4.1](#) and [4.2](#) games presented in matrix form or, as it is sometimes referred to, normal or strategic form. Extensive form games highlight the sequence of play, whereas **normal form** games assume that the sequence of play is either unknown or that the players move simultaneously. Much of our examination of international relations depends on extensive form games.

Extensive form games follow a few basic structural rules. Laid out like a tree, an extensive form game consists of **choice nodes**, which are points in the game at which a player must choose an action. The choice nodes are linked to other choices (or to outcomes) via **branches**. Any number of branches (including an infinite number) can emerge from a choice node, but only one branch can lead into a choice node. That means that each of the branches extending out from a choice node leads to a different place in the game. That place is either another choice node or a **terminal node**, a place where the game ends. This means that each specific path or sequence of possible actions in a game is unique. In this way, game theory reflects some

of the ideas of **path dependence**, an argument sometimes made by historians or historically oriented students of international politics that suggests that the sequence of history is unique. Game theory provides one useful way to address this assumed uniqueness while preserving the idea that there are logical and predictable bases for how international affairs unfold.

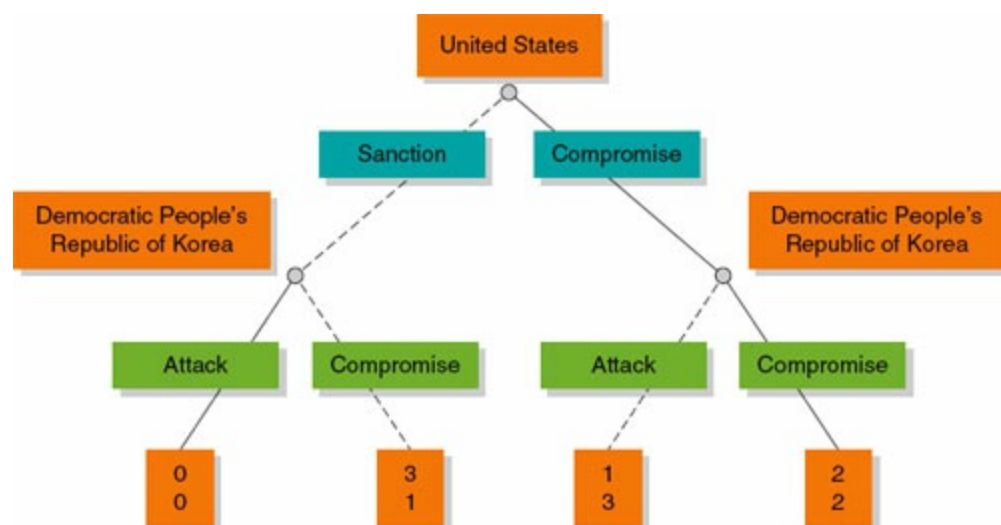
Table 4.3 presents the US-Democratic People's Republic of Korea (DPRK) relationship as the well-known normal form game of chicken. **Figure 4.2** depicts an extensive form version of the game in which the US government moves first. As we can see in **table 4.3**, the choices of action for the US government are to offer a concession (swerve in chicken's standard parlance) or to sanction (straight ahead in chicken's standard vocabulary). North Korea's choices are to compromise (swerve) or attack (go straight ahead). To find the Nash equilibrium, we just check to see what each player will do depending on what the other player might do. Unlike in the prisoner's dilemma, however, here we discover that there is not a dominant strategy. What the US or the DPRK governments will do is contingent on what they think the other government will do. If the United States believes the North will compromise, then the United States can do pretty well by also compromising (US payoff = 2 if both compromise), but believing that the DPRK is prepared to compromise, the United States is even better off imposing sanctions (US payoff = 3 if US sanctions while the DPRK pursues a compromise settlement), perhaps trying to bring the Kim Jong-Un regime to its knees. Since the payoff of 3 is better than the payoff of 2, compromise by the US government when Kim's regime compromises is not part of a Nash equilibrium strategy. The US government has a unilateral incentive to defect away from compromise to sanctioning in this case. Conversely, if the Kim regime is thought to prefer to attack rather than pursue a compromise, then the United States is better off minimizing its costs by offering to compromise instead of imposing sanctions. Thus, the US choice of sanctions or compromise in this simple game depends on what the DPRK is expected to do. Likewise, what the DPRK will do is contingent on what it believes the US government intends to do. Indeed, this game has two pure-strategy Nash equilibria: (1) compromise, attack and (2) sanction, compromise. The cells representing these strategies are highlighted in **table 4.3**. Satisfy yourself that neither player has a reason to switch strategy if they anticipate finding themselves in either of the situations depicted in yellow. Also satisfy yourself that either or both have incentives to switch action if they anticipate being in

either of the other two nonhighlighted cells.

TABLE 4.3 The US and North Korean Governments: Game of Chicken

North Korea's Options → US Options ↓		
	Compromise	Attack
Compromise	2, 2	1, 3
Sanction	3, 1	0, 0

FIGURE 4.2 Chicken in Extensive Form: United States Moves First



The equilibrium strategies that lead to the outcomes highlighted in yellow are said to be pure strategies because each player chooses its action for sure given its expectation of what the other player will do. It should be evident that there is also an equilibrium in mixed strategies in which, as you know, each player chooses its action probabilistically to make the other player indifferent about what it should choose.

Table 4.3 shows us that there is no rational path to both sides acting hostilely toward the other (sanction, attack) but neither is there a path to collective compromise. The game also leaves us a little up in the air since it has not made a firm prediction of what will happen. The United States might threaten to sanction, but this is not a credible threat if North Korea's regime chooses to attack. North Korea may threaten an attack, but this is not a credible threat if the US government will choose to sanction the North. Still, some combination of these actions must occur. We can work out which will

happen if we assume one or the other player gets to move first. To see how, let's look at [figure 4.2](#), the extensive form of this game in which the United States gets to move first.

SUBGAME PERFECTION AND BACKWARD INDUCTION

[Figure 4.2](#) looks entirely different from [table 4.3](#). Indeed, it does not seem obvious how we might apply the idea of Nash equilibrium to solve this game. Fortunately, solving it is both easy and intuitive. We solve by backward induction to find the subgame perfect Nash equilibrium, a refinement of standard Nash equilibrium that eliminates any threats that are not credible and, in the process, reducing the number of equilibria we must worry about. All subgame perfect Nash equilibria (often abbreviated as SPNE) are Nash equilibria, but not all Nash equilibria are also SPNE. To find the subgame perfect Nash equilibrium we do pretty much what any chess player does!

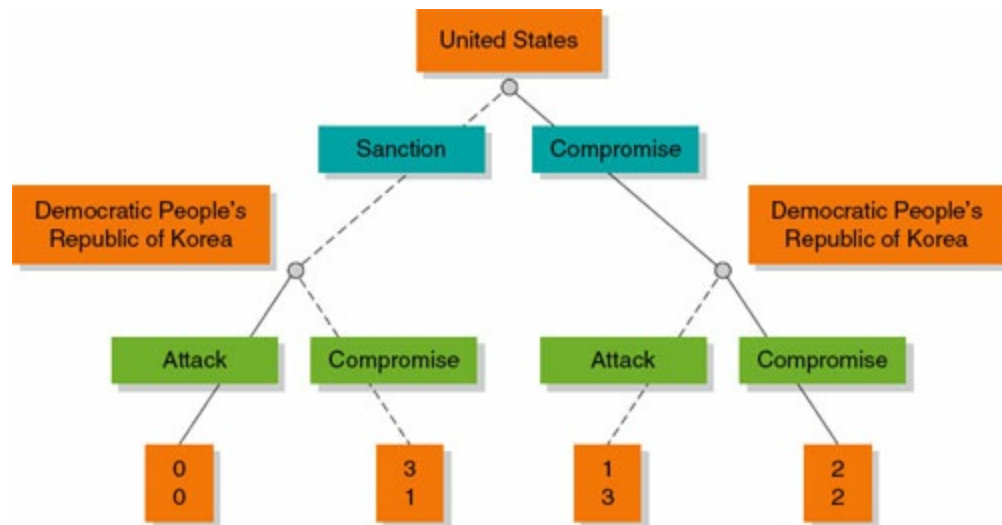
The term *subgame perfection* makes the process sound more complicated than it is. Subgame perfection means that at each choice node the player with a decision to make looks ahead and considers his or her options and the choices that other players will subsequently have in the game. At each choice node, the player chooses his or her **best reply**—his or her best move—given what the other player (or players) is expected to do from that point in the game forward at each of the branches where another player (or players) has a move to make. How the player got to the choice node is not the critical consideration at that point. (Of course, the answer to how the players got to where they are in the game is that each player chose his or her best reply at each prior step in the game by calculating what will happen from that step forward down the tree to the terminal nodes, working out the choice each player will make from the terminal nodes back up to the top of the tree.) All that we are really asking of the players is that they are sufficiently intelligent to work out what other intelligent players will do later in the game.¹ Each player puts herself in her rival's shoes to figure out what her rival will do. Of course, once we introduce various forms of uncertainty it will be necessary to complicate this idea a bit but even in its simple form, subgame perfection provides significant insight into why people do what they do.

[Figure 4.3](#) shows how to solve the game in [figure 4.2](#). Starting at the

bottom of the tree—looking at the DPRK’s choices—the dashed lines show what the DPRK would choose if the United States chose sanctions and what the DPRK would choose if the United States chose to offer a compromise. How do we know what the DPRK will choose? Being rational, their leadership simply chooses the response that gives it the larger payoff whenever it has a decision to make. The payoffs are displayed below the terminal nodes. The upper value in each payoff list is the US expected payoff, and the lower value is the DPRK’s. It is standard to write the payoff of the player moving first on top and then to proceed to write payoffs in the order in which players move.

Subgame perfection is an important way in which game theory thinking differs from historical analysis. Although the game does identify the path of prior moves and countermoves and although that path is fundamental both in reality and in the game to understanding which choices must now be made and why certain choices were not made, in game theory it is what is expected to happen later (i.e., from the current choice node forward) that is critical to current choices, not how the players got to the current situation. This is akin to the economist’s notion that sunk costs are sunk; they cannot be recovered, so the concern now is about what is expected to happen in the future. Game theory is about planning ahead, considering what could happen in the future, and choosing now how to get the best feasible result in the (near term or sometimes distant) future—that is, at the end of the game. If, for instance, you walk in on a chess game and you know how to play chess, you don’t ask how the pieces on the board got to their current position. You think about what the best move is from that point forward for each player trying to work your way forward across the possible remaining moves for each, a very tough task.

FIGURE 4.3 Solving Chicken in Extensive Form: United States Moves First



Consider, if the United States offers a compromise, Kim Jong-Un arrives at a choice node in which he must decide to agree to the compromise or launch an attack. To decide what to do, Kim compares what he expects out of a compromise and out of an attack. Following the payoffs in [table 4.3](#), we see that Kim expects more if he seizes the first-strike advantage and attacks, rather than accept the compromise. If, however, the US government threatens to initiate costly sanctions, then Kim's choice is to retaliate by attacking or to accept a compromise. In this case, Kim expects a payoff of 0 from attacking and a payoff of 1 if he accepts a compromise. Since he prefers 1 to 0, if the United States threatens sanctions, Kim will compromise.

The president of the United States has now worked out what is likely to happen if the United States offers a compromise or threatens sanctions. In the former case, the United States (and the ROK) faces the costs and risks of war, with a payoff of 1. Compromise produces a payoff of 2 for the United States but is not a feasible outcome because an offer of compromise will prompt an attack according to the game in [figure 4.3](#). Indeed, even if compromise were worth much more to the United States, say 10, that would not change the fact that North Korea does not prefer to reciprocate with a compromise. If the United States threatens sanctions, North Korea will accept a compromise, as we saw, giving the United States a payoff of 3. So, for the United States, the real choice is offer a compromise and get an expected payoff of 1 or threaten to sanction and get an expected payoff of 3. Since 3 is better than 1, the United States would threaten sanctions in this game and would extract a compromise in response.

Subgame perfection has improved our ability to predict. The normal form of the game—in which play was simultaneous—produced two pure strategy equilibria (plus a mixed strategy that we have not pursued). Subgame perfection has shown us that which of the two equilibria is expected depends critically on the sequence of play. If the United States moves first, the equilibrium in which the United States compromises and the DPRK attacks is no longer possible. An attack is placed **off the equilibrium path** by the US decision to threaten sanctions and that decision is backed up by the conviction that any other course of action leads to an inferior result for the United States.

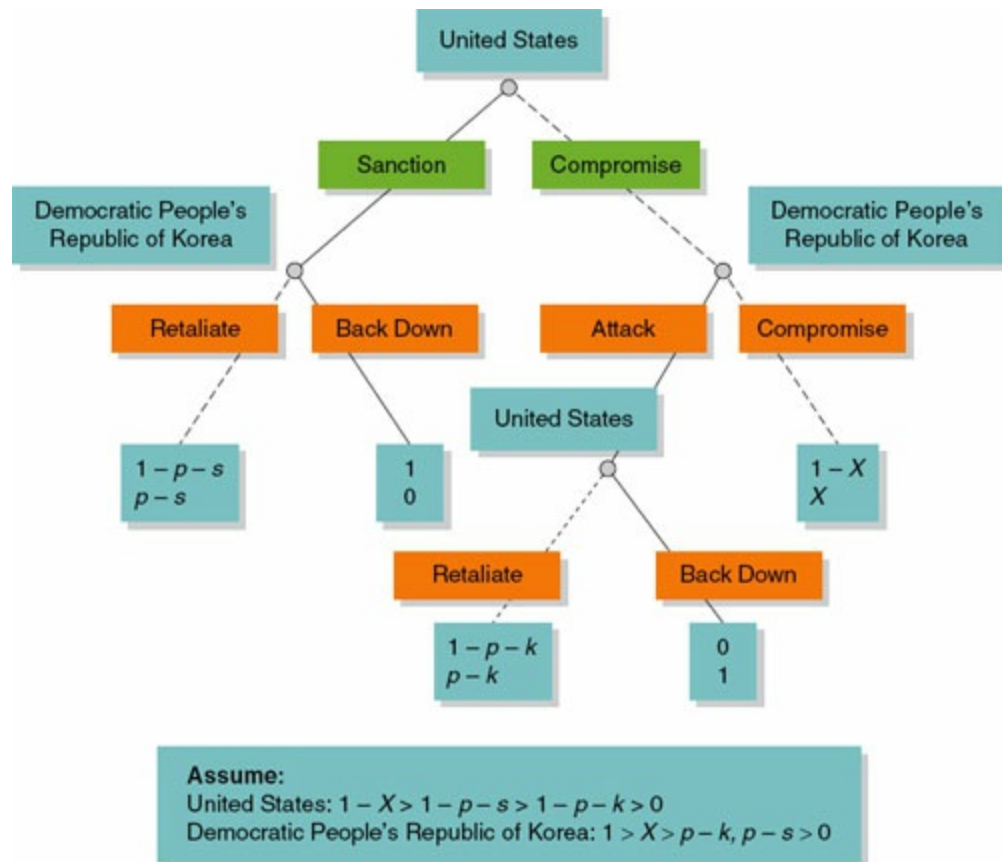
The game in [figure 4.3](#) is quite simple and almost certainly is too simple to capture the essential features of a prospective US-DPRK confrontation. Let's add a little complexity to the game while taking advantage of some of the analysis we learned in [chapter 3](#). [Figures 4.4a](#) and [4.4b](#) expand the game in [figure 4.3](#) to allow an additional move to be made. As in [chapter 3](#), now we assume that with risk-neutral, linear utilities, the US payoff from a compromise proposed by President Obama is $1 - X$ and North Korea's payoff is X . In the event that the North Korean government chooses to launch an exploratory attack against part of the ROK, we now assume that the United States has a decision to make: it can retaliate or back down to avoid further escalation. If it retaliates, then a war ensues. As in [chapter 3](#), the payoff for the United States in the event of a war is $1 - p - k$ and for Kim Jong-Un's government it is $p - k$. If, however, the United States backs down instead of retaliating, then it gets a payoff of 0 and the DPRK regime gets its best outcome, a payoff of 1.

We did not explore the possibility of sanctions in [chapter 3](#), but we have here so we need to add some additional conditions to estimate payoffs in the event of sanctions. Let us suppose that sanctions add an extra cost to both the sanctioner (the US government) and the target of sanctions (the North Korean government), and let us set that cost to s , with $s < k$. To keep things simple, we will assume the cost of sanctions is equal for both sides just as we have assumed the cost of war (k) is equal for both sides. If the United States threatens sanctions, the North Korean government can back down or retaliate with its own sanctions or other costly actions of their own. If they back down following sanctions, the United States gets its best payoff, 1, and the Kim Jong-Un government gets 0. If, however, the Kim regime retaliates, then the United States might prevail after paying the cost of sanctioning. The expected

payoff, following the logic of the calculations for war in [chapter 3](#), but now with sanction costs rather than war costs, is $1 - p - s$. The DPRK expected utility from a retaliatory response to US sanctions is $p - s$.

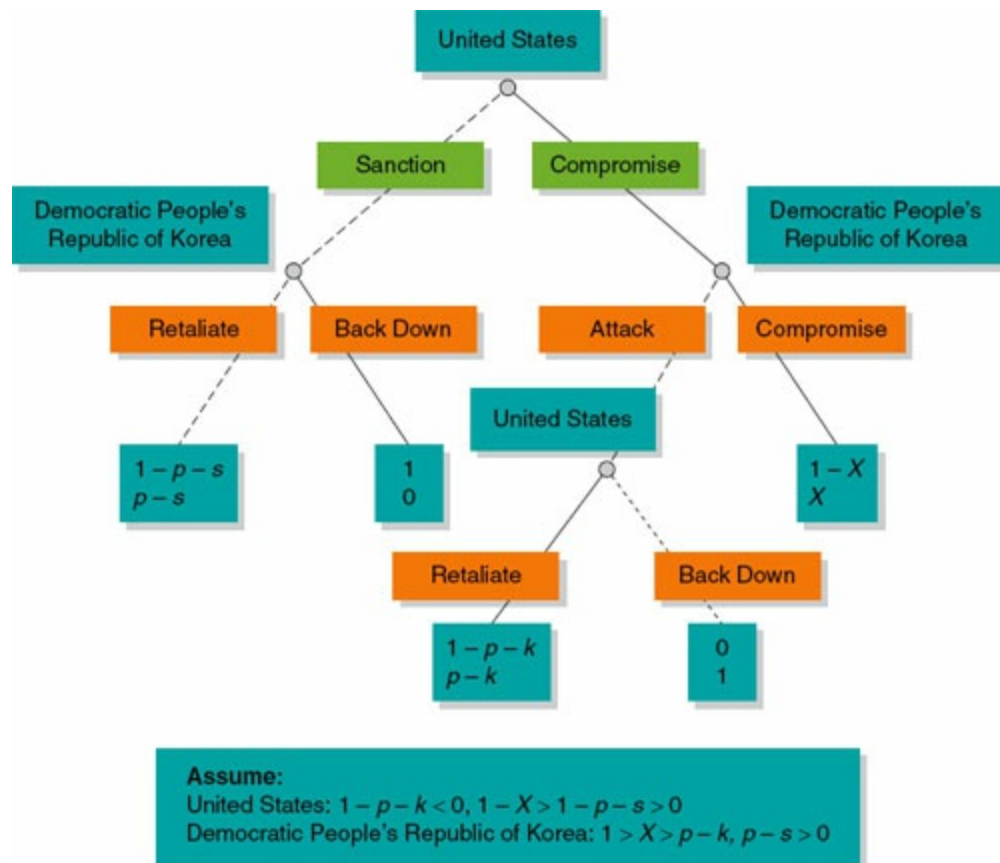
Using backward induction, we can solve this game just as we solved the simpler game in [figure 4.3](#). To solve the game, however, we will need to make some assumptions about payoffs. The only way in which the games in [figure 4.4a](#) and [4.4b](#) differ, in fact, is with regard to one assumption. In 4.4a, I assume that $1 - p - k > 0$, and in 4.4b, I assume that the United States prefers to back down rather than fight back; $1 - p - k < 0$, implying a higher expected cost k in 4.4b than in 4.4a. Of course, it could be that the probability of victory is lower or that both p and k have shifted but for our purposes it is sufficient just to say that k 's value is what has changed between 4.4a and 4.4b. Everything else stays the same between the games in 4.4a and 4.4b, but as we will see, this one change makes a profound difference in what is expected to happen and not necessarily in the way you might expect.

FIGURE 4.4a **The United States Versus the Democratic People's Republic of Korea, The United States Is Prepared to Fight**



As we know, backward induction instructs us to start at the bottom of the game tree and work our way up the tree to figure out what each player will do under each contingency that can arise. So we begin by asking what the United States would do if the North Korean government attacked the ROK following a US compromise offer. We see in [figure 4.4a](#) that the US expected utility from retaliating to protect South Korea is greater than its expected utility from backing down ($1 - p - k > 0$). This means that if the United States offers to compromise, the North's choice is to accept the compromise (for which its utility is X) or attack and face a retaliatory strike from the United States. In that case its payoff is $p - k$. As you can see in the notes attached to [figure 4.4a](#), $X > p - k$ so the North would, in this circumstance, accept the compromise. Indeed, we know this is right because, as we saw in [chapter 3](#), the United States would be expected to offer the smallest compromise that the North and the United States could both accept. The DPRK, as we saw, will accept any deal for which $X \geq p - k$.

FIGURE 4.4b The United States Versus the Democratic People's Republic of Korea, United States Lacks Will to Fight



Okay, we now know that if the United States proposes a compromise and if it will retaliate if the DPRK were foolish enough to launch some military action against the ROK, then no attack will occur and the DPRK will strike a compromise in which the United States gets $1 - X$ and the DPRK gets X . But we still don't know whether a compromise is preferable to the United States over a US policy to threaten sanctions against the DPRK government. Looking at the choices on the sanctioning side of the tree, we see that if the United States sanctions the North can back down and get 0 or it can retaliate in kind and expect to get $p - s$. Since I have assumed it can tolerate the sanctions, so $p - s > 0$, the DPRK will retaliate. Now the United States has worked out what the DPRK will do under each contingency in the game and so can finally decide whether to sanction or to offer a compromise. Recall that any US compromise needs to satisfy both the DPRK and the United States if it is to avoid war. Given that the cost of sanctions, s , is assumed to

be smaller than the cost of war, k , the United States can make an offer that satisfies both its needs and the DPRK's needs. By offering to compromise, President Obama expects to get a payoff of $1 - X$; by sanctioning, $1 - p - s$. By assumption, $1 - X$ is worth more to the United States than $1 - p - s$, so a compromise is offered and accepted.

A switch to the game in [figure 4.4b](#) shows us how important good intelligence can be and good estimates of one's own expected costs and benefits. In 4.4b, the only thing that has changed is the expected cost of war. It has gone up sufficiently that if the North were to attack the South in response to a compromise offer from the US government, the United States would back down rather than fight to defend South Korea (much as when, in 2010, the North attacked a South Korean Island with no retaliatory response either by the South Korean or US government). Because the North expects, in this scenario, that the United States would back down, two things are noteworthy: (1) it doesn't really matter how well the North Korean government thinks it would do if the United States fought a war with it because the United States will not retaliate; it will back down; and (2) a compromise offer would elicit an attack (for the DPRK, $1 > X$), so the United States cannot strike a bargain with the North. If the United States sanctions then, just as in the game in [figure 4.4a](#), the North retaliates rather than backing down. The US choice in [figure 4.4b](#) turns out, then, to be to offer a compromise and find itself capitulating to the North (US payoff = 0) or sanctioning with a chance of success and a chance of failure (leading to an expected payoff of $1 - p - s$). Since, by assumption, $1 - p - s > 0$ (remember $s < k$, so it is possible that $1 - p - k < 0$ and $1 - p - s > 0$), the United States in this scenario chooses to sanction North Korea even though the North will retaliate with some similarly costly action. Thus, raising the costs of war for the United States does not, in this instance, prompt cooperation between the adversaries. Instead, the threat of attack by the North places off the equilibrium path any chance of a compromise, fomenting sanctions instead. The North, in this case, may well not have helped itself by being aggressive since doing so has precluded an acceptable compromise offer.

Subgame perfect Nash equilibrium is an important improvement over the basic Nash equilibrium concept. This is because, by looking ahead at the sequence of moves, subgame perfection eliminates any Nash equilibria that involve incredible commitments or incredible threats. For example, suppose North Korea knows that the United States anticipates very high political as

well as material costs from a retaliatory strike against the North, as in the scenario in [figure 4.4b](#). Then any retaliatory threat by the United States is unconvincing to the DPRK government. The Kim regime knows that the United States is better off backing down if the North engages in aggression. The United States does not have a credible threat because retaliation is not a best reply to an attack for the United States in this scenario. Likewise, the US government knows that if the North promises to accept a reasonable compromise under this scenario it is not telling the truth. It is just making a false promise to avoid costly sanctions. Should the United States offer a perfectly sensible compromise if it still knows that the North's best reply is to attack, anticipating no retaliatory strike by the United States? Subgame perfection, by focusing on the best replies, dismisses the US threat to retaliate and the North's promise to compromise. The key is that while all subgame perfect Nash equilibria meet the definition of Nash equilibrium, not all Nash equilibria are subgame perfect. Those that involve threats that are not credible cannot be sustained as equilibria when we consider subgame perfection.

Chess is an especially useful analogy in considering [figures 4.4a](#) and [4.4b](#). Chess is a very complicated game. Nevertheless, it is a complete information game, which means that both players know the entire history of play—all the prior moves—in any chess game they are playing and that they know the expected payoff for each player at every terminal node of the game (that is what is meant by *perfect information*), in which, in the end, they either win, lose, or draw. The game in [figures 4.4a](#) and [4.4b](#) have exactly these same characteristics, although they are much simpler than chess. The United States knows any prior moves and, therefore, always knows which choice node it has arrived at; the same is true for Kim Jong-Un. Therefore, both the United States (i.e., its leaders) and North Korea (i.e., Kim Jong-Un and his leadership team) have complete information. Also, the game assumes that each player has perfect information so that each player knows the payoff expected by him- or herself and by the other player at each terminal node of the game. The players know what each possible outcome is worth to them and to their rival. Perfect information, for instance, means that Kim knows whether the United States expects that retaliating against North Korean aggression is better (as in [figure 4.4a](#)) or worse (as in [figure 4.4b](#)) than backing down, so he knows whether the United States expects that $0 > 1 - p - k$ or $1 - p - k > 0$. Just like chess, then, the key to playing the game well is to look ahead and think about what the other player will do in response to each

and every move you can make, knowing that the other player will choose what he or she thinks is the best move now to structure the rest of the game as favorably as possible for him or her. To work this out, the easiest thing to do is to start by looking at each choice node that leads only to terminal nodes. That is, start at the bottom of the game tree and work out what choices will be made in the end, and then work your way up the tree, backward, to work out each best choice along the way after having already calculated what the consequences are of all choices closer to the end of the game.

Counterfactual Reasoning

Figures 4.4a and 4.4b help us see a few important general principles. Each figure has a set of dashed lines that denote each player's choice at each choice node. In each figure, one set of dashed lines forms a continuous path from the start of the game to a terminal node that signifies the end of the game. The actions chosen along this continuous path constitutes the actions that the game leads us to predict we will *observe* in the world if the specified conditions of the game are correct. But there also are dashed lines associated with choices leading to other terminal nodes; in those cases, the heavy lines are not continuous from the start of the game to the end. These lines reflect part of the complete plan of action for the game. They are part of the equilibrium strategy of one or the other player. Unlike the lines that are continuously linked from the start of the game to a terminal node, these lines are said to be off the equilibrium path. The continuous dashed lines show the equilibrium path; the choices off the equilibrium path reflect expectations about what would happen if those choice nodes were reached. These choice nodes are not reached exactly because what a player, at an earlier choice node, anticipates will happen there is inferior, so the player avoids this inferior outcome by making a choice that produces a better result from that point forward. That is exactly the point of looking ahead in a game to figure out the consequences of alternative actions, the very information that results from undertaking a backward induction to identify the subgame perfect Nash equilibrium outcome. Thus, off-the-equilibrium-path expectations are crucial to shaping which choices people make even though we do not expect to observe these actions or outcomes. These choices are part of any player's equilibrium plan of action—his or her complete plan of action.

In a **complete and perfect information** environment, we never observe

these off-the-equilibrium-path actions because, well, as the name indicates, they are off the equilibrium path, so they are not actions that get taken. These potential choices reflect a hypothetical, counterfactual world, a world of actions that have not occurred because of their anticipated poor consequences and that yet, because of their counterfactual implications, help shape what we do observe. This alerts us that understanding what we observe in the world requires more than just looking at what happens. The facts truly do not speak for themselves. It also requires sorting out what decision makers expected would happen if they chose differently. All game theory models emphasize the importance of counterfactual reasoning and, in that way, tend to differ from more standard accounts by historians, many case study analysts, and many quantitative statistical analysts, whose attention tends to be riveted on what did happen and not on why something else didn't occur.

Counterfactual reasoning, as we see in more detail in later chapters, leads to important considerations that are often overlooked in other forms of research on international affairs. For instance, we know that a significant percentage of allied nations fail to come to their alliance partner's aid when their ally is attacked. Many people look at this fact and infer that alliances are worth no more than the paper on which they are written. They conclude that many alliances, maybe even most alliances, are unreliable. Yet this inference is questionable if we undertake a game theoretic analysis and examine which actions are on or off the equilibrium path (Smith 1996). For instance, if North Korea contemplates attacking South Korea, knowing that South Korea is allied with a powerful country, the United States, then North Korea may decide not to attack even though its leadership professes to despise the South's regime and separation from the North. An attack does not occur perhaps because of the anticipation that it would precipitate a retaliatory strike by the ROK with strong US support. But if North Korea believes that the US commitment to South Korea is shaky, then the North might attack the South thinking that it could win even if it does not believe it could defeat the joint power of the United States and ROK.

If we look only at cases in which attacks take place, we are selecting cases in which the attacker expects that the target's ally probably will not participate because either it is not sufficiently committed or it is not strong enough to make a difference in the outcome. We might then infer, as many have, that alliances are unreliable because most of the time, when attacks against allied states take place, the allies of the target of attack failed to help

their partner. But if we did this, we would be ignoring the times when the attack was placed off the equilibrium path by the expectation that the target's ally was a reliable and powerful partner. The would-be attacker might have chosen not to act in the first place rather than risk having to fight the combined forces of its target and the target's allies. These cases reflect reliable alliance ties that succeeded in deterring the would-be aggressor. As a consequence, we do not observe an attack and perhaps not even a threat—that too perhaps having been put off the equilibrium path. Yet these are the very cases that show alliance reliability; these are the cases of the dog that didn't bark.

Game theory, with its emphasis on off-the-equilibrium-path expectations, forces us to notice the selection effect that leads the data on the reliability of allied nations to be biased against the conclusion that they are reliable. Statistical methods and most case study methods are more likely than game theory reasoning to lead us to neglect this insight into selection effects and, therefore, to draw the wrong inference about alliances or many other factors in politics. These other methods, by themselves, tend to assume that what happens is representative of what didn't happen too. But missing data—the dogs that didn't bark—are rarely randomly chosen. What we observe about terrorist attacks suffers from selection effects: the terrorist events that happen are not typical of the events that might have been plotted, but that didn't happen because, for instance, of counterterrorism efforts (as discussed in [chapter 13](#)). Disputes that escalate to war are not representative of disputes that are settled short of war or of relations that never manifest themselves as disputes at all, as shown in [chapter 6](#). The expectation of bad results from war—that is, deterrence—works when we don't see an attack in the first place. Sanctions are most effective when they are threatened but not implemented. Once they are implemented, it is likely that the target has already concluded that the costs of yielding to an adversary's demands are greater than the costs of the sanctions and so the sanctions we see implemented rarely work. We have to always watch out for these sorts of selection effects. Game theory compels us to pay attention to the differences between the things that happen and the things that don't.

TRY THIS

Find data on ten countries that belonged to alliances and that were not

attacked and on ten countries that belonged to alliances and that were attacked. Are there differences in the nature of the alliance agreements (did they call for mutual defense? consultation? less?) or in the amount of military power that the allies potentially could have brought to bear if there were an attack? Does it look like the states that were attacked had a strong enough deterrent to prevent a nearby adversary from attacking?

Solving the North Korea-US Game with Uncertainty

The game between North Korea and the United States highlights some additional insights that we can now explore a bit more. We introduced the possibility that the United States is in either of two quite different circumstances: the costs (k) of war are expected to be relatively small or large. The North Koreans would choose differently depending on which of these circumstances is true if—a big if—the United States offered a compromise. Why do I say this is a big if? We have seen that when the costs are sufficiently high, the North would attack and compel the United States to back down, but for this very reason, when the costs are relatively high the North doesn't get an opportunity to attack because the United States chooses to sanction rather than offer a compromise agreement. The fact that the United States initiates sanctions rather than offering a compromise is itself a *signal* that the United States is not prepared to retaliate if the North uses force. From this, we might think that which type of situation the United States is in—high cost or low cost—is readily determined by seeing whether the US sanctions (high cost of war) or proposes a compromise (low cost of war), but we would be wrong.

If the North always infers that US war costs are low when the United States offers a compromise, then even a United States expecting to face high war costs would have an incentive to bluff, pretending its expected costs of war are low *by proposing a compromise*. The Kim regime, like all players in game theory models, is assumed to be intelligent. It can work out that the United States might be sincere if it threatens retaliation while offering to compromise, but it might be insincere too, lying about its preparedness to retaliate. The North, however, can partially offset the problem just as poker players can compensate for the possibility that a big wager by an opponent is just a bluff. Let's see how.

Imagine that before the United States must choose between sanctions and offering a compromise settlement, we add an additional move to the games in figures 4.4a and 4.4b, a move by “nature” that assigns a probability, R , that North Korea faces a United States like the one in 4.4a and a probability $1 - R$ that it faces a weaker United States like in figure 4.4b. When we say there is a move by nature what we mean is that some process outside any player’s immediate control has determined the likelihood that the United States is the tough type that will retaliate or the weak type that will capitulate to avoid a war. That move by nature can be thought of as reflecting the electoral preferences of American voters or a chance electoral result when voters choose, as they so often do, on some completely different basis such as the state of the economy. Such causes of the US player-type, high cost or low cost, are said to be **exogenous**—that is, whatever determines the US expected costs following a North Korean attack is outside the strategic framework of choices the players face. We want to evaluate how large the exogenously determined value of R has to be to induce the Kim regime to prefer to accept a compromise rather than risk a war. We can think about R and $1 - R$ as a measure of Kim’s belief or perception about the toughness of the US president. In chapter 13, we will see how to use **Bayes’ rule** to evaluate the consistency between beliefs and observed actions and so see how players learn from the unfolding action in a game. For now we will just worry about dealing with uncertainty about the US type—high or low cost—without adding the complexity of learning.

The United States (i.e., the president), of course, knows which type he is; that is, the US decision makers know whether they believe that $1 - p - k > 0$ or $0 > 1 - p - k$, but Kim Jong-Un does not know this information about the US leadership. Let us say, then, that he thinks there is a probability R that $1 - p = k = 0.2$ for the United States. This could be true, for example, if he believes that the United States has a 70 percent chance of prevailing in a fight initiated by the DPRK ($1 - p = 0.70$) and that the costs (k) of the ensuing war will be 0.50 or any other combination of values for p and k such that $1 - p - k > 0$. On the other hand, with probability $1 - R$, Kim believes that the United States thinks its chance of prevailing following a retaliatory strike is still 0.70 but that the United States faces high domestic political costs as well as military costs totaling 0.80. In that case, with probability $1 - R$, $1 - p - k = -0.10$, which is, of course, worse for the United States than the expected payoff of 0 from backing down. With this information in hand, we can

determine how big Kim has to believe the probability R is for him to accept a compromise rather than gamble on a retaliatory strike by the United States. We can also work out what the compromise offered by the United States is likely to be so that the United States chooses it over initiating severe sanctions given Kim's uncertainty about how the United States will respond to an attack. To make these calculations, we must assume, as is standard in game theory, that beliefs (such as the size of R) are **common knowledge**. By common knowledge, I mean that Kim knows his belief about the United States (i.e., he knows what he thinks is the size of R) and the United States knows what Kim believes the probability is that the United States is tough or weak (i.e., what Kim's belief about R is, is known to the United States), and Kim knows that the United States knows and the United States knows that Kim knows that the United States knows, and so forth.

What Kim knows is that if he is offered a compromise and he uses the bargaining setting to engage in aggression, there is a chance R that the United States will retaliate and there is a chance $1 - R$ that the United States will back down. Which action the United States will select depends on whether the United States is the weak type or the tough type. Kim's best way to work out whether to accept or reject a compromise offer is to calculate his expected payoff if he attacks and compare that to his expected utility from agreeing to a compromise settlement. We already know that he values a compromise at $X \geq p - k$. How does he assess his expected utility from launching aggression? We know that with probability R the United States will retaliate and Kim Jong-Un's government will end up with a payoff of $p - k = 0.3 - 0.50 = -0.20$; and we know that with probability $1 - R$, the United States will back down and Kim will get a payoff of 1. Indeed, as we saw earlier, Kim's only reason to engage in aggression is to force a capitulation by the United States. He doesn't have to expect to do well in a war; he only has to expect that the threat of war is sufficient, given US considerations, for the US regime to back down. Thus, in this scenario, Kim's expected payoff from attacking is $R(-0.20) + (1 - R)(1)$. He will attack if the United States offers a compromise X provided that $R(-0.20) + (1 - R)(1) > X$; if that is not true, then he will accept the compromise offered by the United States.

Solving this expected utility comparison is quite informative and will help us see the significance of choosing the magnitude of a compromise offer endogenously. By that I mean that the US government, if it wishes to avoid finding it necessary either to fight North Korea or to impose sanctions, will

pick the best compromise, from its perspective, that Kim will prefer to accept rather than attacking and that the United States will prefer over sanctioning North Korea. This idea of **endogenous** choices alerts us to be attentive to **reverse causality**. For instance, in this example, the proposed compromise will not be the cause of there being no attack; instead, the contents of the proposed compromise are *caused* by expectations about the consequences of an attack. That's getting to be a bit complicated, but questions of war and peace are not simple. To recap, we are working out the probability that Kim will risk war, and with that information solved, we will work out which is the best compromise offer for the United States to make and for North Korea to accept that will cost the United States as little as possible.

The size of the compromise in this game will be dictated by calculations solely in North Korea and the United States. Of course, a more comprehensive view would consider the expected strategic behavior of all interested parties, both international and domestic. We, however, will stick to this simpler game for now.

As we have seen, Kim's expected utility if he acts aggressively is equal to $R(-0.20) + (1 - R)(1)$. If X , the compromise, is chosen by the United States to reflect the minimum deal that Kim will accept if he is certain the United States will retaliate ($1 - R = 0$), then he would take any compromise to avoid a war with greater expected costs than gains. What happens if the United States offers this minimum compromise to him (i.e., $X = 0$)? His payoff from choosing to attack, $R(-0.20) + (1 - R)$ must be larger than 0. This means that $-0.20R + 1 - R > 0$, so if R is smaller than 0.83, Kim will attack if the United States demands full concession to the Republican Party's position on North Korea's nuclear program. If $R > 0.83$, he will compromise even to the point of accepting the Republican Party's position. Given their prior experiences with the United States under both Republican and Democratic presidents, the North Korean leadership is unlikely to believe that the United States has a probability of retaliating as high as 0.83 unless the North's aggression against the South is quite substantial. If nature—say, the North's prior experience with the US government—places R at .5, then the compromise X must equal $0.50(-0.20) + 0.50 = 0.40$ or more, something a bit more positive for North Korea than President Obama's position at 25 on our issue scale from [chapter 3](#). Of course, what is offered also has to be better for the United States than a sanctions war in which the payoff is $1 - p - s$ for the United States. The cost of sanctions will, then, also prove crucial to the US decision.

Removing uncertainty is difficult because Kim knows that the US leadership has an incentive to pretend to be tougher than it really is. Just like in poker, foreign policy leaders have incentives to bluff to try to get a better result than their actual situation warrants. One way to clarify a US commitment to use force as a last resort is to make a public declaration of that intention. Such a declaration undoubtedly would prompt domestic political opposition, both in the Congress and among segments of the public. Showing a willingness to bear the political costs of such a declaration is a way of demonstrating resolve on the part of US leaders exactly because the unpopularity of such a step is likely to cost the party in power votes in the next election. The larger that expected cost, the more credible the public threat of retaliation will be. Such a costly declaration is known as a **costly signal**. It helps a rival calibrate the sincerity of a declaration.² The costlier the declaration is and the harder, or costlier, it is to back down from, the more likely it is that the declarer means what he or she says (Fearon 1995, Smith 1998; Ashworth and Ramsay 2011). In [chapter 6](#), we will look at how these domestic costs, sometimes called audience costs, can fundamentally alter the risk of war or peace.

Conversely, a threat to use force made strictly through private diplomatic or military channels is more likely to be seen as just so much **cheap talk**. After all, a benefit from making a military threat only in private is that the threatening party avoids triggering the domestic political opposition that would arise if the declared intent were made in public. Cheap talk imposes no cost on the actor sending the signal and so provides no information that an opponent can use to update his or her belief about the threatening party's sincerity. Cheap talk is just babbling; it adds no information that changes the mind or expectations of its target.³

Whatever offer the United States might put together is constrained by how much uncertainty the North Koreans have about US resolve; that is, Kim's uncertainty about US toughness means that the United States might gain bargaining leverage. But there is another constraint pulling the United States in a different direction—the United States also has to like any compromise it offers better than it likes the consequences of economic sanctions; otherwise, it will not make the offer.

The games we have solved are very simple. They strip away almost all of the detail and nuance that makes up real-world foreign affairs. Nevertheless, they have also revealed important subtleties that emphasize some of the value

in using strategic reasoning to understand international politics. We saw, for instance, that US sanctions against North Korea have an unintended consequence. They are a signal to the North Korean regime that the United States is unlikely to defend North Korea if offers of concessions are met with an aggressive response from the DPRK. In the games we solved, sanctions are subgame perfect only when the United States needs to place the possibility of its backing down to the North off the equilibrium path. We also can see that offering to compromise increases the belief that the United States would retaliate following North Korean aggression but that this signal of resolve may just be a bluff to push the North to accept a compromise that otherwise they would reject. This can be achieved because the threat of aggression by the North may make no sense for them except when the United States is expected to back down. Once the threat of retaliation is made more credible, the North has a stronger incentive to settle and avoid the costs it would suffer in a war. Thus, even with simple games we have been able to extract some important insights. That is our objective here and in all cases—not to try to capture all of the details of reality so much as to focus on the essential elements of a situation and draw insights into how we can manage dangerous situations effectively.

SUMMARY

The analysis of spatial models in [chapter 3](#) left us without a way to think about strategic behavior. Spatial models generally assume that everyone acts on his or her preferences in a sincere manner. The concept of subgame perfect Nash equilibrium, however, alerts us that adopting sincere behavior at each step in a decision process can lead to an inferior outcome for a decision maker. Instead, decision makers have strong incentives to be strategic. They choose their actions by taking their preferences into account to be sure. But they also consider the constraints they operate under, such as how much power they have compared to a rival, how confident they are about what their rival really wants, and how willing they are to take risks in pursuit of the policy results they desire. We have seen that game theory can be a very useful tool for sorting out the complexity of international interactions and that it can be useful in informing policy choices and in predicting what actions people are likely to take and what offers they are likely to make to try to resolve problems. These issues are the essence of international affairs.

The rest of this book applies the tools introduced here to situations involving conflict and situations involving cooperation in international relations. The objective is to elucidate why things work the way they do and also to facilitate our ability to predict what is likely to happen in specific situations and develop the skills and knowledge to provide useful advice to leaders charged with the responsibility for making life and death decisions in the international arena.

KEY TERMS

backward induction

Bayes' rule

best reply

branches

cheap talk

choice nodes

common knowledge

complete and perfect information

cooperative game theory

costly signal

dominant strategy

endogenous

exogenous

extensive form

mixed strategy

multiple equilibria

Nash equilibrium

noncooperative game theory

normal form

off the equilibrium path

Pareto efficient

path dependence

prisoner's dilemma

pure strategy

reverse causality

subgame perfect Nash equilibrium

terminal node

Answers:

1. No, rational people calculate costs and benefits, take beliefs into account, and pay attention to constraints. Beliefs about how others will play the game or constraints such as a decision maker's lack of information or limited resources may encourage rational decision makers to choose to pursue less than their most desired outcome.
2. No, uncertainty or calculated risks may lead me to gamble on a course of action that in the end results in my least desired outcome. Calculated risks—after all—sometimes turn out badly.
3. No, if they always called the play with the highest probability of scoring a touchdown, the defense would know that this is the play they have to defend against, concentrating the defense. Then the play would no longer have the highest probability of success. Mixing up what one does can spread the defense out and improve the chances of success. This is true in football and also in life.
4. Yes, I can follow a mixed strategy by, for example, committing to spin a dial that shows a region in which I will do X and a region in which I will do Y rather than X.
5. The expectation of a later event can cause current choices. Christmas tree purchases, for example, are not the cause of Christmas although the trees are bought before the holiday. The expectation of Christmas leads to the purchase of Christmas trees. In strategic situations, expectations about the future consequences of alternative courses of action are critical in working out what individuals choose to do.

¹ Game theory instructs us to treat our foes with respect. It is always dangerous to assume that a rival will make mistakes and that you won't. People make mistakes, of course, but assuming they will puts a decision maker in a very precarious position. After all, we cannot

know that a rival will make a mistake, meaning that a rival will make a move not as good for him as he might have made. And so, we are always playing it safe by assuming a respectful approach to our opponent's capability to sort out what is in his best interest.

² Back in [chapter 1](#), I mentioned that one of the counterarguments to Reagan's proposed Star Wars defense shield was that it was not technically feasible. Reagan understood that the feasibility was questionable, but he also understood that if the US government were seen to be spending a lot of money on star wars then the Soviet Union's leadership might well infer that a technical breakthrough had been made and that, therefore, it was feasible. Indeed, former Soviet leader, Mikhail Gorbachev, apparently succumbed to this very logic, grounded in the costly signal of spending on Star Wars, in agreeing to a sweeping arms control agreement with Reagan.

³ The exception to this statement is when cheap talk is sent to someone who shares the signaler's objectives. Then the cheap talk provides a way for the actors to coordinate their actions (see Sartori 2006). For example, US private declarations to North Atlantic Treaty Organization (NATO) allies about the rules of engagement in Afghanistan are cheap talk signals that are likely to be effective because all involved parties want to avoid friendly fire incidents.

5

Why War? The Big Picture



The age-old conflict between Israelis and Palestinians was exacerbated by the establishment of the state of Israel following World War II, and a peaceful resolution seems unlikely to many worldwide. Evidence of the violence, such as these buildings destroyed in Israeli airstrikes in the Rafah refugee camp in the southern Gaza Strip in January 2009, is apparent throughout the region, and although the United Nations and other international organizations have called for a cease-fire, neither side appears willing to step back.

OVERVIEW

- This chapter investigates the major structural theories of war: neorealism and the power transition school of thought.
- War is generally inefficient compared to reaching a negotiated settlement. The risks of war may be exacerbated by uncertainty, by

problems with making credible commitments, or when the issue in dispute involves a winner-takes-all situation.

- Some important neorealist hypotheses about international peace and stability do not flow logically from that theory's core assumptions. Other important neorealist hypotheses are falsified by the empirical record.
- The link between power transition theory's assumptions and hypotheses is more clear-cut than is true in the case of neorealism.
- Some core power transition hypotheses follow from the theory's logic and are supported by evidence; others either do not follow logically or are not borne out by evidence.
- The power transition theory outperforms neorealism when it comes to offering a structural explanation for war, but its weaknesses point to a need to reconsider its approach to domestic politics.

Here is some happy news: war between states seems to be on the decline. Joshua Goldstein (2011) has put the evidence together, and it is quite striking. Either deterrence is working or people are getting better at finding ways to cooperate. On the less happy front, internal wars and insurrections are not in decline, nor is external military intervention as a tool to address political change. Therefore, it is really important that we have a better understanding of the circumstances that prompt cooperation or conflict. Although becoming less common, the threat of war is certainly all around us. Iran's alleged pursuit of nuclear weapons prompts daily threats of military action by Israel and by the United States. Defense Secretary Leon Panetta stated the following clearly on January 8, 2012: "And our red line to Iran is to not develop a nuclear weapon. That's a red line for us" (Hechtopf 2012). We have already seen the nascent threats on the Korean Peninsula. Naval actions between China and neighboring states have been common in the South China Sea as neighbors compete for control of the prospective oil and natural gas reserves lying under the sea around the Spratly Islands. Violent conflict involving Venezuelan forces on Colombian soil, between Turks and Kurds, between North and South Sudan (recently independent from the North) remind us that warfare is far from passé. Indeed, vigilance and better

understanding is crucial. After all, while war is relatively infrequent, it is extraordinarily deadly. Consider that estimates of war-related deaths per year in the past 100 years vary approximately from 1 to 2 million. To put that in context, this makes war, on average, approximately the sixth greatest killer in the world. The World Health Organization (WHO) estimated in 2008, for instance, that heart disease—the leading killer—was responsible for 7.3 million deaths, HIV/AIDS for 1.78 million (about the same as war), and road accidents for about 1.21 million. Of course, we spend a huge amount of defense dollars to try to prevent (or enable us to wage) war, but we spend almost nothing on research into the causes and cures for war. We spend billions, in contrast, on each of the leading causes of death on the WHO list. So it behooves us to make the most of what knowledge we have accumulated and that is exactly what I will try to do in this and the next chapter on war.

Assumptions Check

1. War between states is _____.
 - a. becoming more common
 - b. becoming less common
2. The equal distribution of power—the balance of power—between states _____.
 - a. generally makes the international system more stable
 - b. generally makes the international system less stable
 - c. generally has no effect on system stability
3. Multipolarity, with its associated uncertainty, _____.
 - a. promotes war avoidance
 - b. promotes war
 - c. has no systematic effect on the likelihood of war
4. Wars that transform the structure of relations among nations _____.
 - a. must be large wars, involving all the great powers
 - b. must be small wars that get out of hand
 - c. must be small wars that remain small
 - d. are sometimes big, sometimes small, and sometimes don't happen

at all

See end of chapter for answers.

Warfare represents the most egregious breakdown of international cooperation. Yet even during wars there are numerous examples of cooperative behavior and that gives us hope of finding fixes to the threat and realization of war. Of course, allies sometimes assist one another in defeating a foe. But even enemies engage in cooperation. The Geneva Conventions, for example, establish rules of war. Although not always obeyed, these rules do help control wartime excesses; they proscribe the unnecessary and wanton killing of innocent civilians, provide rules for handling prisoners of war, and impose limits on the uses of certain types of weapons (e.g., poison chemicals and gases).

International agreements discipline behavior in wartime. This is accomplished by creating clear expectations about what is not acceptable and by reinforcing the expectation that the loser will be held accountable for wartime misconduct (Ash 1997; Morrow 1998, 2007). Proscribed behavior reflects rules or institutions that limit leaders' freedom of action. This, in fact, is the purpose behind such institutions. Thus, even at the height of war, some international cooperation is evident between adversaries. Still, the fundamental feature of warfare is the breakdown of cooperation and its replacement with violence and destruction. International institutions sometimes help but other times they fail. The laws of conduct that governments promised to obey sometimes just fall by the wayside. [Chapter 4](#) has already given us some important clues as to why this is so: international commitments are effective if they sufficiently serve the interests of their signatories that their approved patterns of action remain on the equilibrium path. When those approved actions are sufficiently costly or risky relative to another path of behavior we should expect rational decision makers will choose what they believe is in their best interest. That means, as we will discuss in [chapter 7](#), that institutions need to be designed to robustly serve the interests of signatories. That, of course, is a tall order.

Because war is so destructive and peacekeeping arrangements alone have not succeeded in preventing war, wars causes have occupied generations of researchers. Many theories persist as plausible explanations of warfare. The

most prominent of these occupy our attention here.

WAR, CLARITY, AND UNCERTAINTY

It is reasonable to ask why war ever occurs and there is no shortage of answers to this question. It is common, on observing people at war with each other, to point to religious differences or clashes of civilizations and their cultures (Huntington 1996). Tribal affiliations, linguistic differences, historical animosities, or the legacy of ancient feuds are another body of explanations. And, of course, it is common to argue that asymmetry in economic clout cause wars: the rich exploit the poor or weapons manufacturers push governments into wars for profits. There surely is a kernel of truth in each of these or people would not continue to espouse these explanations, but none is particularly good at explaining the outbreak of war or its resolution. We should notice that each of these conditions is always around. Wars are rare events. Why don't these conditions lead to perpetual war if they are the explanation of war and peace choices?

Another common source of explanation resides in the psychological domain. Disputes escalate out of control as emotions overpower people's ability to reason. Hatred, envy, and ideology may so cloud judgment that leaders blindly plunge their nations into horrifically costly and destructive wars. There may be some truth to this contention too, but there is also significant evidence that forces us to question this psychological perspective on war. For instance, if judgments are clouded and war is the product of unrestrained emotion or other seemingly nonstrategic choices, then how do we explain the strong association between who starts wars and who wins them? If, as I argue here, initiating war is a purposive act, then we should expect the initiators to be advantaged as, indeed, it turns out they are. If wars arose out of some momentary emotional pique, then who wins, loses, or draws (Stam 1996) should be unassociated with who initiates fighting. That certainly is not the case. The outcomes of wars suggest that prior planning is crucial: war is a premeditated act.

Over 60 percent of war initiators win according to data from the highly regarded Correlates of War Project. In contrast, over 54 percent of defenders in war either lose outright (43 percent) or end up with a draw (11 percent). The odds of winning for initiators are even greater when the initiator is a democracy. [Chapters 6](#) and [14](#) offer explanations for that fact. According to

Dani Reiter and Allan Stam (2002), democratic nations win 93 percent of the wars they start. Yet we might reasonably think that democracy is a form of governance that is particularly susceptible to the passions of the masses and so especially prone to fight wars against the odds. But given the victorious track record of war initiators, a good starting place to think about such conflicts is that they are the product of rational, purposive calculations by attackers and defenders.

Premeditated warfare, however, leaves us with a puzzle. Why do defenders, given that they are likely to lose, not look for a way to make a deal before enduring the costs of war? This question is another way of saying that war is always *ex post* (i.e., after the fact) inefficient. What this means is that once adversaries know what outcome a war has produced, they also know a negotiated deal they could have struck *ex ante* (i.e., before the fact) that would have left them at least as well off, and possibly better off, than they are after fighting a war. This is so because war involves **transaction costs** in lost life and property, costs that in principle could be avoided beforehand by the adversaries' agreeing to whatever outcome the war subsequently reveals as the resolution of the issues between them.

The *ex ante* problems that seem to lead to war can be reduced to three main factors: (1) uncertainty, (2) commitment problems, and (3) indivisibility of issues. Each of these factors can cloud what the optimal deal might be (Fearon 1995; Slantchev 2003).

As James Fearon (1995) makes clear, **asymmetric information** (or uncertainty) can lead entirely rational actors to different conclusions about what they can expect to gain or lose in war (as our ongoing North Korean-US example illustrates) and, therefore, can make negotiated agreements difficult to construct. It is true, for instance, that defenders are more likely to lose than are initiators, but they are far from certain of losing. They do win a fair amount of the time. Likewise, it is important to recognize that the absence of credible commitments between the sides, or, loosely speaking, a lack of trust, can make agreeing on a settlement difficult because of inadequate confidence that what is agreed to will be faithfully acted on. Promises of mercy, for example, may help encourage a peace agreement, but how can any country or leader be certain that once its soldiers lay down their arms it will not be taken advantage of? We'll see how difficult this problem can be when we look at some of the issues that surround terrorism in **chapter 13**. Promises can be and, all too often, are broken. Finally, the risk of war can be exacerbated when a

dispute is about an indivisible objective, such as keeping or losing **sovereignty**. This can stand in the way of agreement because the circumstance dictates that the winner gets everything and the loser gets nothing.

To understand these conditions better, I expand on the illustration in [chapters 3 and 4](#) of how a negotiated compromise can be reached by considering how uncertainty, commitment problems, or indivisibility can make compromise difficult. Using the reasoning that led to [figure 3.9](#), we saw that it is possible to identify a range of policy compromises on the nuclear issue that both a Republican US president and Kim Jong-Un could agree to. We set that problem up so that the Republicans wanted an outcome as close to 0 on the issue scale as possible while Kim Jong-Un seeks an outcome as close to 100 as possible. We pitted the negotiations against the threat of war, taking both the probability of victory or defeat into account and the expected costs of war. That is, we found the compromise that is at least as good as the expected utility from fighting for each side. Of course, the procedure we used is quite general. It could just as easily have been applied to the dispute, for instance, between Israelis and Palestinians over the allocation of land or between Sunnis and Shia in Iraq over how best to share oil revenue or a host of other international issues. Whichever of these problems we consider, the setup will be essentially the same although, of course, specific costs and probabilities will vary as will the shape of utility functions. But putting those specifics aside, recall that the generic argument is that for the side that wants as much of X as possible, where $0 \leq X \leq 1$, a compromise X is worth taking provided that $X \geq p - k$ and the contestant for whom the utility of X is $1 - X$, a compromise X is preferred to fighting provided that $p + k \geq X$. For convenience, [figure 5.1](#) replicates [figure 3.9](#) and highlights the issue outcomes that fall within the compromise outcomes that each side could agree to. Now I want to expand on this result to see how war might arise even though a feasible range of compromise agreements exists. We will work through the three general explanations of why war can occur even though there is an attainable compromise that avoids war.

TRY THIS

Provide a real-world example different from any I have given in which differences in information or beliefs contributed to there being a war.

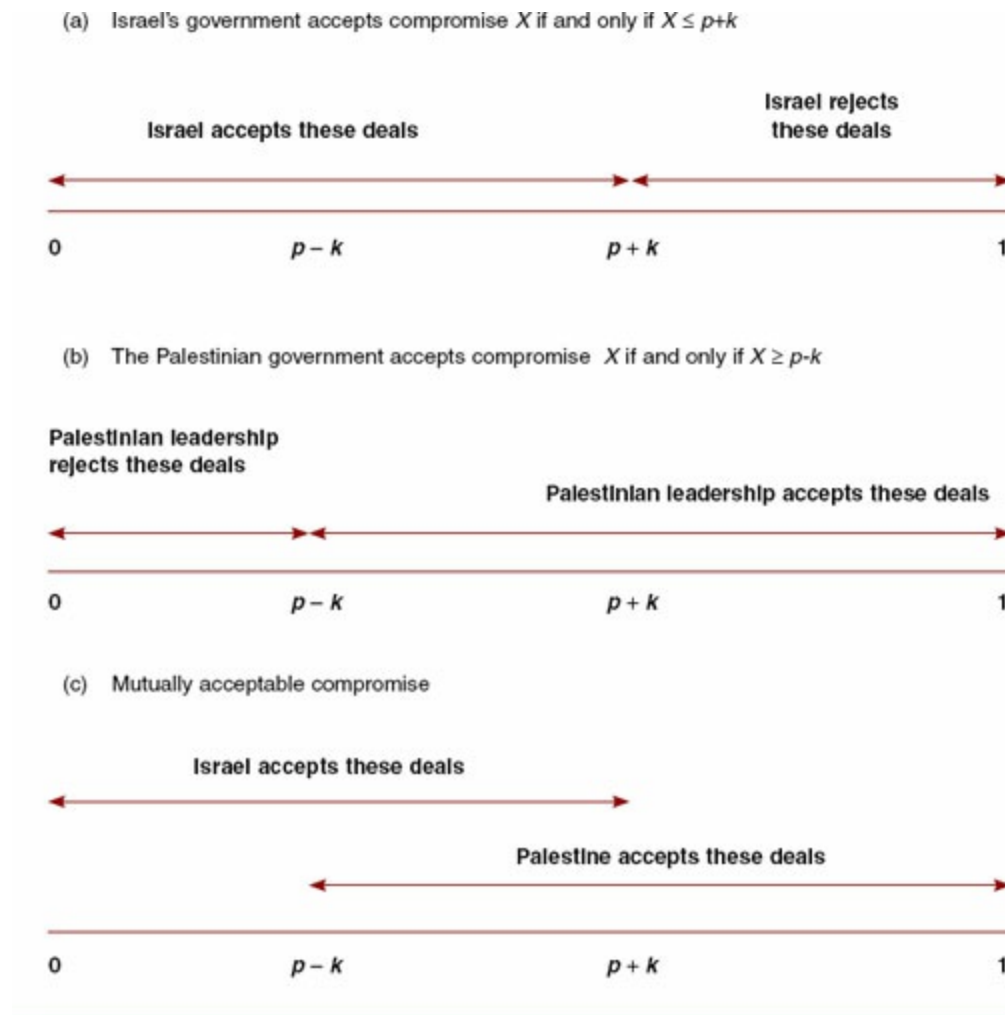
Then give an example in which the absence of credible promises contributed to war, and give an example in which something in dispute that could not be divided contributed to war. Can you think of examples in which uncertainty, lack of credible commitments, or indivisibility helped avoid a war?

Seeking Compromise When a Dispute Is about an Indivisible Good: Winner-Takes-All

To see how broadly applicable the reasoning we are using is let's switch from the North Korean example to the territorial dispute between Israel and the Palestinians. I assume that the Israeli leadership would like to retain all the land they currently control and so want to give up 0 to the Palestinians. I also assume that at the other extreme, the leadership in Hamas wants to recover all of the land that was Palestinian before 1948; they want Israel to give them all of its land, equivalent to Hamas's position that Israel does not exist as a state. Now, for purposes of the current example, imagine that the Palestinian demand for land is in accordance with the stated objective of Hamas. If control over all the land currently held by Israel is truly its irreducible objective, then the land is viewed as indivisible by Hamas—it is an **indivisible good**. Hamas's leaders, in fact, say that this is the case. They have not shown interest in a compromise and have certainly demonstrated their willingness to fight for what they want. Likewise we can see that some of Israel's religious political parties see the land as having been promised to them by God and therefore are ready to fight to defend their claims. Of course, in each case the rigid stated position of Israel's religious right and Hamas's leadership may just be posturing to try to extract as much as possible in exchange for peace with the other side. That is, we are uncertain of their true expectations.

We can say, following our earlier example, that for Hamas $X = 1$ and, as we can see in [figure 5.1](#), that is more than the Israeli leadership will accept. If the settlers or other religious movements controlled the Israeli government, being, for instance, members of the winning coalition as they so often are, then their proposed settlement is $X = 0$, which is unacceptable to the Palestinians. No settlement can produce a compromise in this case of indivisibility, and so there is a severe risk of war.

FIGURE 5.1 A Hypothetical Palestinian-Israeli Compromise over Land



One important source of division between the two main political parties in the Palestinian Authority—Fatah and Hamas—is over Israel's right to exist. Fatah takes a more pragmatic approach than Hamas. For instance, Fatah's leader, Mahmoud Abbas, participated in an international conference held in Annapolis, Maryland, in November 2007 to try to make progress toward the establishment of an independent Palestinian state that would include some but certainly not all land held by Israel. Hamas was not invited to the conference. Hamas's leaders held their own conference rejecting the idea of ceding, as they put it, even one centimeter of land that was Palestinian before the creation of Israel in 1948. More recently, Abbas has tired of negotiations with the Israeli leadership since from his perspective no progress

was being made. Instead, he has sought recognition as a state by the United Nations and has resumed a more cooperative relationship with the leadership in Hamas. Perhaps this signals that there is no point to negotiating if the prospective negotiating partner really denies the possibility that there is any acceptable compromise or perhaps it is posturing to induce the Israeli leadership to stop the expansion of settlements into territory claimed by the Palestinians. We cannot be sure which is the case, but we can analyze the likely consequences of current positions if they are thought to possibly reflect bluffs intended to improve either sides negotiating leverage. If the Israeli leadership needs the religious right to survive in office or if Fatah needs Hamas to survive politically within Palestine, then the dispute over land is indivisible. In that case it is either put on a back burner, left unresolved, or it induces war.

War, Compromise, and Uncertainty

A peaceful settlement can also be made difficult or impossible by uncertainty or by a commitment problem. Imagine that the Israelis think their probability of victory ($1 - p$) is 0.8 (so that they think their chance of losing, p , equals 0.2) and that the cost of war (k) is 0.1. Then they will accept any deal (X) involving their giving up no more than 0.3 worth of land. Now suppose that the Palestinians think their own chance of victory is 0.5 and they agree with the Israelis that the cost of war is 0.1. Then the Palestinians will compromise if $X \geq p - k$ or, equivalently, $X \geq 0.4$. Because of the differences in their beliefs about their chances of victory, the two sides cannot agree on a compromise; the deals acceptable to one side are unacceptable to the other. This uncertainty about the true probability of victory or defeat might arise out of private (secret) information about the morale of their fighting forces, about knowledge of outside help, about the quality of their war plans, or a host of other possible factors. In this case, uncertainty makes war likely. Without the disagreement about the probability of victory, there could have been a mutually acceptable negotiated settlement.

War, Compromise, and Commitment Problems

Now let's consider two different issues that might create a commitment problem that makes it difficult for either side to trust that the other will do whatever it promises to do through negotiations. First, let us imagine that the

Palestinians have a first-strike advantage, so that their chance of winning is made greater by striking first than by attacking simultaneously or waiting to retaliate in a second strike after being attacked by the Israelis. Let us label the chance of victory for the Palestinians, given that they strike first, as $p_{\text{(first)}}$. If both sides attack simultaneously, then, as before, the probability of a Palestinian victory is p , and if the Palestinians wait to strike second, it is $p_{\text{(second)}}$. Suppose $p_{\text{(first)}} > p > p_{\text{(second)}}$. The Palestinians would negotiate rather than attack if $p_{\text{(first)}} - k < X$. Similarly, the Israelis do not attack if $1 - p_{\text{(second)}} - k < 1 - X$ or, equivalently, $X < p_{\text{(second)}} + k$. We can reorganize these two calculations to say that $p_{\text{(first)}} - k < X < p_{\text{(second)}} + k$, from which it follows that negotiations will occur if $p_{\text{(first)}} - k < p_{\text{(second)}} + k$. This means that whether the sides can credibly commit to negotiate depends on the expected costs of war. If $p_{\text{(first)}} - p_{\text{(second)}} < 2k$, negotiations are feasible. That is, if the marginal advantage of striking first is smaller than two times the expected cost of war a deal can be struck—otherwise not. If the costs of war are sufficiently small, then the rivals cannot credibly commit to negotiate.

Let's suppose that $p_{\text{(first)}} = 0.7$, $p_{\text{(second)}} = 0.4$, and $k = 0.1$ as before. Then, $p_{\text{(first)}} - k = 0.6$ and $p_{\text{(second)}} + k = 0.5$, so $p_{\text{(first)}} - k$ is not less than $p_{\text{(second)}} + k$. In this circumstance, the Israelis will not trust the Palestinians to negotiate in good faith because the land the Palestinians could extract by force, taking advantage of their first-strike option, exceeds the deals the Israelis are willing to make. The same is true the other way around. That is, the Palestinians will not trust an Israeli promise not to exploit its first-strike advantage because that advantage can produce benefits that cannot be credibly achieved through negotiation. Thus, once a first-strike advantage is introduced, each side has a problem making a credible commitment to negotiate in good faith and a prisoner's dilemma situation emerges in which each side ends up living with a worse outcome than could have been achieved by negotiating without fear of exploitation at the hands of an adversary with a first-strike advantage. Here, the inability to commit to negotiating patiently rather than seizing the first-strike advantage exacerbates the risk of war (Powell 1999; Slantchev 2003).

Now let's think about a different commitment problem. The most common approach among negotiators dealing with the Israeli-Palestinian dispute is to seek a land-for-peace formula. That was the approach agreed to in Oslo in 1993, for example, and pursued for many years until the Oslo land-

for-peace formula failed. The idea is that the Israelis give up some land in exchange for a guarantee of peace. An alternative formulation reverses the sequence of concessions—the Palestinian Authority disarms its factions that engage in violence against Israel in return for land concessions. Either approach is likely to fail because each induces a fundamental commitment problem. Here I illustrate the problem in the case of land for peace. In [chapter 13](#), when we examine terrorism, I more fully assess the problem of committing to peace first to get concessions later.

Land for peace suffers from a **time inconsistency** problem. That is, one party (the Israelis in this case) gives an irreversible benefit—such as turning land over—to the other party (the Palestinians in this example) today in the hope that the other side will reciprocate by assuring peace tomorrow. Almost certainly, the party that gets the irreversible benefit today will exploit it to seek still more concessions before it says it will deliver on its promises. We can easily look at this in the context of our present example. Suppose the Israelis and Palestinians strike a negotiated compromise in which Israel transfers X of its land holdings to the Palestinians. Suppose the probability of the Palestinians’ defeating Israel in a war increases as the amount of land and resources controlled by the Palestinians increases. Whereas before we stipulated that their chance of victory in war was p , it now becomes $p + \Delta$, where Δ is the incremental improvement in the Palestinians’ war chances as a result of their gaining control of X of the land held before by the Israelis. Then, the land that the Palestinians could gain through war is the remaining part that they didn’t get in the previous deal—that is, the remaining $1 - x$ of the original land in dispute. That is what they stand to gain by winning a war following a partial land concession. The Palestinians’ expected utility from fighting a war with the Israelis, then, is $(p + \Delta)(1 - X - k) + (1 - p - \Delta)(0 - k)$. Israel, having ceded X of the land to the Palestinians, now holds $1 - X$ of the land still in dispute. Suppose the Palestinians propose a new deal in which they would receive y , a percentage of the remaining $1 - X$ of the land originally in dispute in exchange for a promise of peace ($y \leq 1 - x$). They will prefer the proposed compromise to going to war if $y \geq (p + \Delta)(1 - X) - k$.

The new demand, y , involves an additional land transfer, provided that the costs of war k are smaller than the expected gain from war $(p + \Delta)(1 - X)$. This means that, under most circumstances, the Palestinians, having gained land before, are now in a stronger position to demand additional land in exchange for peace. We could repeat this process many times over until there

is no land left for the Israelis to concede. Here is the commitment problem in the form of time inconsistency. A concession today emboldens the recipient to make a further demand tomorrow and tomorrow and tomorrow until, through what Thomas Schelling (1965) refers to as salami tactics—cutting the sausage into thinner and thinner slices—eventually there is nothing left. As we will see, a similar commitment problem occurs if we reverse the process, seeking the disarmament of terrorists now in exchange for land concessions later.

We have now seen how uncertainty, commitment issues, or a dispute over an indivisible good can increase the risk of war. In showing how these conditions can lead to war, I have assumed that each party to the dispute has one unified set of expected utility values by which to compare alternative approaches (such as fight or compromise). Our example here involves Israel and Palestine. Earlier we saw the same logic applied to North Korea and the United States. The analysis will work for any situation in which each party's choices can be represented by the calculations of a single actor. That is, I have looked at the question of war by assuming that each party is a unitary actor so that there are disputes between the opposing sides but not among decision makers on the same side.

With this discussion in hand, and recognizing that it implicitly assumes that states are rational unitary actors, let us now consider some specific theories about the causes of war that follow in this unitary actor tradition. I explore the logic and evidence for two theories in depth: neorealism and power transition theory. The first looks at international affairs and war in particular, completely outside the context of domestic political considerations. The second focuses primarily on international considerations but gives some attention to domestic factors.

TRY THIS

Redraw [figure 5.1](#) to show the range of land deals that the Palestinians will accept and the range that the Israelis will accept if the Palestinians have a first-strike advantage and $p_{(\text{first})} - k > p_{(\text{second})} + k$. Substitute actual values for $p_{(\text{first})}$ and $p_{(\text{second})}$, and compare the results to the possibilities if there is no first-strike advantage.

REALIST THEORIES OF WAR

Neorealist theorists believe that the distribution of power in the international system is a major factor in determining whether international affairs are stable or unstable. Stability refers to circumstances in which the sovereignty of key states is preserved (Gulick 1955). **Instability** refers to changes in the composition of the international system, especially changes involving the disappearance or emergence of “key” states following large wars. Key states are those whose assistance might be necessary to counteract a threat from a rival coalition of states. Sometimes I refer to these states as **essential actors** to highlight their ability to turn a potentially losing situation into a winning one or, at least, into one that blocks adversaries from victory (Niou, Ordeshook, and Rose 1989).

Because war represents a potential threat to sovereignty, neorealist theorists are concerned with its causes, especially those of big wars capable of jeopardizing the survival of great powers. In addressing war and instability, neorealist theories start with the following four assumptions:

1. International politics is anarchic.
2. States, as rational unitary entities, are the central actors in international politics.
3. States seek to maximize their security above all else and consider other factors only after security is assured.
4. States seek to increase their power as long as doing so does not place their security at risk.

Anarchy, you recall, means that there is no supranational authority that can enforce agreements between states. Consequently, in the international arena every state must look out for its own well-being; international politics involves self-help above all else. The second assumption means that domestic politics does not influence international politics. International politics is the interplay among states and that interplay does not depend on who the leaders of a country are or what form of government it has. We see in [Chapter 6](#), when we look closely at the role played by domestic politics in shaping war and peace choices, that this contention oversimplifies to the point of seriously limiting our ability to explain critical aspects of international affairs. The third assumption establishes the primacy of security. It also establishes that states are not willing to trade away their security for other benefits. Other

possible goals, such as wealth, are pursued only after security has been assured (Waltz 1979, 126).

The final assumption tells us that states are interested in increasing their influence over other states. No state is content to be weak, but states accept being weaker than they might otherwise be if the pursuit of greater power would place their security at risk. This assumption places restrictions on the actions that states take in pursuit of power. For example, if a state becomes sufficiently powerful that other states foresee the possibility that their security will be threatened by it in the future, then they are expected to join together to deprive the growing state of the power to threaten them. Thus, an increase in a state's power can actually make the state weaker in the long run. This happens if the increase in power alarms rivals and mobilizes them to form an opposition alliance. A coalition or alliance of states will come together to beat back a growing state if that state's power threatens to become large enough that others face a possible loss of sovereignty. This phenomenon is sometimes known as the **security dilemma** (Jervis 1978; Nalebuff 1991).

These four assumptions provide a parsimonious and potentially powerful view of international politics. Several important hypotheses are said to follow from them. The most important neorealist hypotheses about the threat of war or instability are as follows:

1. Bipolar systems are more stable than multipolar systems.
2. States engage in balancing behavior so that power becomes more or less equally divided among states over time.
3. States mimic, or echo, one another's behavior.

How Well Does Neorealism Do in Explaining War and Instability?

Our examination of neorealist theory and the risk of war proceeds in stages. First, we investigate whether the three primary neorealist hypotheses are logically implied by the four assumptions of neorealist theory. Then we examine how well those hypotheses describe historical circumstances. In this way, we can assess the logical and historical significance of the neorealist view of war and international politics.

If the neorealist hypotheses are not accurate descriptions of international affairs, then their logical status is unimportant. Hypotheses may be logically

implied by the assumptions of a theory, but if the predictions are inconsistent with observed behavior even more so than the predictions of other theories, then the theory's predictions are falsified. If the neorealist hypotheses are consistent with observed behavior but do not follow from its assumptions, then we need to alter the assumptions to account for the observed facts. In this case, an additional, new set of implications will probably follow from these new assumptions. We will also want to know whether those new implications are consistent with the facts. It is through this process of evaluation and alteration that theories grow and we achieve a better understanding of how the world works. Finally, if the hypotheses follow logically from the assumptions and the hypotheses accurately account for observed behavior, then neorealist theory is a powerful tool for understanding international politics.

TRY THIS

What do you consider to be the important poles or blocs of nations today? How do you decide which states are part of a particular bloc or pole and which are not? Might looking at the similarity in their military alliance commitments help sort out bloc memberships?

Bipolarity and Stability

A bipolar international system is dominated by two very powerful states, with weaker nations clustered around each of the two power poles. A multipolar system consists of more than two very powerful states. The great powers in a multipolar environment may also attract the support of other, lesser states. In a multipolar system, there are more than two such concentrations of power.

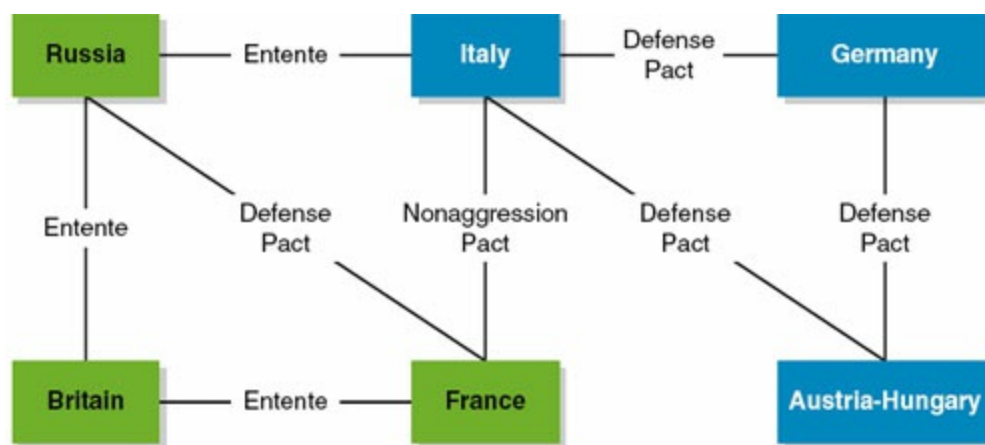
The argument that bipolar structures are more stable than multipolar ones is built on the claim that there is more uncertainty in a multipolar system than in a bipolar one. In a multipolar world, it is difficult to anticipate how nations will organize themselves in the event of a threat by one nation against another. There are so many possible linkages between different blocs of nations that the commitments of third parties not directly involved in a confrontation become difficult to predict. So, **bipolarity** is thought to alleviate two of the conditions we have discussed that are thought to increase

the risk of war: uncertainty and commitment problems.

Suppose the international system consists of five powerful nations—A, B, C, D, and E; each of which is the leader of a bloc. If A and B get into a squabble, each will be relatively uncertain about what C, D, and E will do. In contrast, if the international system consists of only two big powers, A and B, then there must be less uncertainty. Each is the adversary of the other, and neither needs to worry about anyone else. Neorealists conclude that because there is less uncertainty in a bipolar world, fewer errors are made by the leaders of states in bipolar international politics. Therefore, they claim, bipolar systems are more stable than multipolar systems.

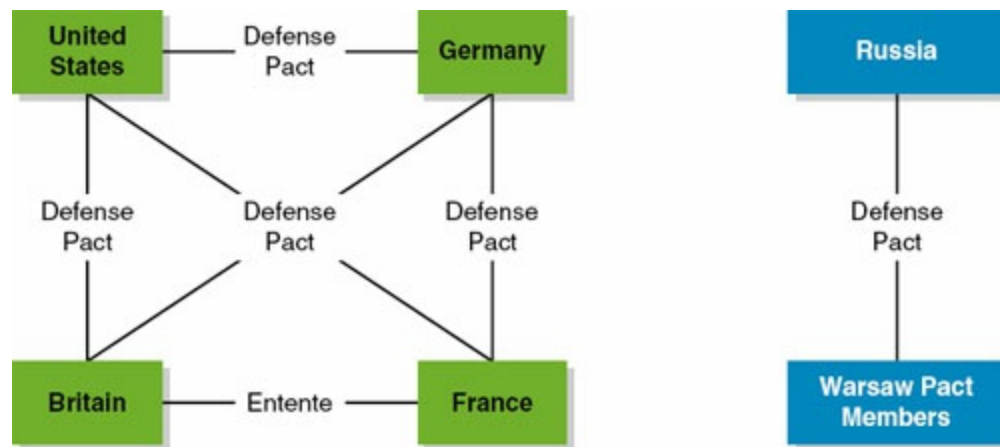
We can see how this argument about **polarity** and uncertainty works by considering the configuration of international military commitments shown in figures 5.2 and 5.3. Figure 5.2 displays the military commitments of the major powers on the eve of World War I. Six major powers were actively engaged in European diplomacy in 1914. They included Austria-Hungary, Britain, France, Germany, Italy, and Russia. The United States and Japan were also great powers at that time, but their foreign policies, although actively promoting trade, generally reflected a desire to stay out of European security questions.

FIGURE 5.2 European Great Power Alliance Commitments, 1914



After World War I was over, many experts maintained that rigid alliance commitments created a trip wire that allowed the 1914 crisis between Austria-Hungary and Serbia to escalate into a global conflict. However, a look at the great power alliance ties in June 1914, just before World War I erupted, suggests that in fact the boundaries demarcating commitments were far from clear.

FIGURE 5.3 European Great Power Alliance Commitments, 1989



The bipolar structure of major power alliances during the Cold War contained little ambiguity.

It is evident from [figure 5.2](#) that there was considerable uncertainty about how the great powers would respond to hostilities between Austria-Hungary and Russia over the future of Serbia, the immediate issue that led to World War I. It is notable that the combinations of states that eventually formed the two sides in World War I did not make up obviously distinct sets of interests before the war. England, France, and Russia stuck together in fighting against Austria-Hungary and Germany, but that they would do so was neither inevitable nor obvious before the war. Italy, with ties to both camps, held back, declaring its neutrality on the eve of the beginning of fighting. Italy finally came in on the side of the Triple Entente in April 1915. [Figure 5.2](#) reminds us that explanations of World War I that say that the alliances worked like trip wires, making a massive war inevitable, rely more on hindsight than on the actual prewar facts.

England had revealed itself to have weak ties to France and Russia, promising only to consult with them and no more. We might have readily imagined from this that Britain would stay out of the war altogether; in fact, that's just what the Germans thought the British would do. France, for its part, was closely aligned with Russia but also had a neutrality pact with Italy. Italy, in turn, was strongly associated with Austria-Hungary and Germany through an alliance that promised mutual defense. The sides that appeared to be polar opposites after the war began were intricately intertwined before. Certainly, the war would have been much more limited had Britain stayed out

of it and had France participated only half-heartedly.

The ambiguous alliance commitments of 1914 stand in sharp contrast to the structure of the major power commitments in European affairs during the Cold War. As shown in [figure 5.3](#), European security affairs were dominated by five major powers: Britain, France, Germany, the Soviet Union, and the United States.¹ China had emerged as a great Asian power, but it was involved very little in European security questions. Likewise, Japan was a great economic power but not a major player on the European or world security stage.

The major power system during the Cold War years was unambiguous. The United States led the North Atlantic Treaty Organization (NATO) alliance, which included all the European great powers except the Soviet Union, and the Soviets led the Warsaw Pact countries made up of their East European satellite states. No alliance commitments ran from one bloc to the other to create ambiguities about who was committed to whom. The Cold War bipolar structure contained very little uncertainty indeed.

We can see that a system in which two states are dominant is unlikely to contain much uncertainty and that a multipolar system with more than two important centers of power can easily contain uncertainty. It appears that neorealists are correct in their contention that in multipolar systems decisions are made under greater uncertainty than in bipolar systems. But there is a considerable logical leap from the association of uncertainty with **multipolarity** to the association of multipolarity with instability and the association of bipolarity with stability. Indeed, some have argued that multipolar systems are more stable than bipolar systems precisely because multipolarity produces uncertainty (Deutsch and Singer 1964). Others have argued that there may be no relationship at all between polarity and stability (Bueno de Mesquita 1978) because different decision makers are likely to respond differently to uncertainty, some being risk averse and cautious while others are risk-acceptant and gamble.

Neorealism's Bipolarity Hypothesis Does Not Follow from the Theory's Assumptions

There are several problems with the argument that because bipolar systems encompass less uncertainty than multipolar systems they yield greater stability. To start with, this argument is not implied logically by the four key

assumptions of neorealism. In fact, those assumptions say nothing at all about uncertainty or how uncertainty affects stability. To conclude that there is a relationship between uncertainty and the stability of the international system, we need to make additional assumptions.

In particular, we could, for instance, make some assumption about how states (or decision makers) respond to uncertainty. Here we run into disagreement about what uncertainty implies about decision making and stability. For example, uncertainty may prompt states (or their leaders) to behave especially cautiously. At the same time, powerful nations may attempt to eliminate or diminish a rival precisely because greater certainty makes evident the opportunity to do so. If uncertainty promotes caution and clarity of information encourages opportunism, then bipolarity encourages instability. This is essentially the argument that led Karl Deutsch and J. David Singer (1964) to conclude that multipolar systems are more stable than bipolar ones.

To support the argument that bipolarity fosters stability, then, we might add the assumption that certainty makes states more cautious, whereas multipolarity and its attendant uncertainty make states somewhat reckless, less cautious and maybe even risk-seeking. If we logically exclude the possibility that uncertainty breeds more caution than does certainty, then all states are particularly (and perhaps even equally) risk averse in the face of certainty. Although this is a strong assumption, it does solve the logical dilemma we face, and it is consistent with the third neorealist hypothesis, which holds that states echo one another's actions. Whether it solves the logical problem we are confronted with at the price of departing too much from reality is an empirical question to be resolved by examining evidence rather than making a judgment about whether we think the assumption is realistic or not.

The fix I have just proposed precludes the possibility that different leaders or different states respond in different ways to uncertainty, and it is consistent with the system-level view of neorealism. If, however, states (or their leaders) react to uncertainty each in its own way then we face three problems. First, variation in the response to uncertainty violates the unitary rational actor assumption, which contends that important choices in international politics are driven by structural factors, not by considerations internal to the state. Second, if different decision makers respond to uncertainty in different ways, then there is no reason to expect any empirical

relationship between bipolarity and stability at all. Some leaders might be particularly cautious when faced with an uncertain situation, whereas others might be more reckless. If there is a roughly equal mix of states (or leaders) with reckless and with cautious reactions, then, on average, uncertainty would not have any systematic effect on stability. Half the time uncertainty would prompt cautious, stability-enhancing actions, and the rest of the time it would prompt reckless, instability-producing actions. Third, if leaders differ in how they respond to uncertainty, then the third hypothesis (that states mimic one another) does not hold up. Clearly, neorealist theory's equating bipolarity with stability cannot tolerate the possibility that individual decision makers vary in their responses to uncertainty.

The bipolarity argument is problematic even if we ignore the fact that it offers no explanation of how uncertainty or certainty affects international stability. The deeper problem is that the hypothesis that stability is fostered by bipolarity is inconsistent with the four assumptions of neorealism. In fact, taking the neorealist assumptions into account, we can show that it is logically true that more distributions of power are stable in a multipolar world than in a bipolar world.

To demonstrate this claim, let's suppose that there are 300 units of power in the international system. Two distributions of power are of interest when it comes to a bipolar world. If the distribution of power for bloc or nation A and bloc or nation B is exactly 150 to 150, then neither state can destabilize the system by trying to take power away from the other bloc. Each is exactly powerful enough to prevent a victory by its rival. Such a bipolar balance-of-power system would be very stable indeed, as hypothesized by neorealist thinkers. If, however, the distribution of power differs at all from that perfect 150-150 split, then the system must be unstable according to neorealist assumptions, if not neorealist conclusions (Niou et al. 1989).

TRY THIS

I have been careful to say that the distribution of power is precisely equal—or is perceived to be precisely equal—when bipolarity implies stability. What if the real distribution of power in a bipolar setting is 120 to 180, but the perceived distribution is 150 to 150? Is this system likely to foment an attempt by one bloc to take power from another? What if the real distribution of power is 150 to 150, but the perceived

distribution is 120 to 180? In this case, is one bloc likely to try to take power away from the other? Think about the answers to these questions strictly in regard to the assumptions of neorealism. What does the theory logically imply? What does the theory say about perceptions? Are the implications consistent or inconsistent with the hypothesis that bipolarity leads to stability?

Suppose, for example, that nation A has 151 units of power but nation B has 149. The system is practically balanced but not quite. According to assumption 3, nation A wants more power but, per assumption 4, it will not seek more power if doing so puts nation A's security at risk. Because power is the ability to make a rival do something it otherwise would not want to do, A has the ability to force B to give up all of its resources (i.e., the 149 units of power). A is stronger than B. If B does not willingly give up its resources, A can just take them. In a bipolar world, nation B cannot turn to anyone else for help because there is no one else. By taking B's resources, A increases its own power and does not place its sovereignty or its security at risk because it knows that it can beat B. This is what it means to say that A is more powerful than B in the terms of a structural perspective such as neorealism. Therefore, except in the unlikely event that power is perfectly balanced or is perceived to be so, bipolar systems are unstable according to neorealist logic.

Of course, you might reasonably object that it takes a larger difference in power to assure victory. That will not change the fundamental assessment, however, as we will see. It will just substitute a band around perfect power equality for which the risks of war outweigh the expected gains and will still leave some level of deviation in power at which the bipolar system will be unstable. Unbalanced bipolarity results in the destruction of one big state or bloc of states by the other, bigger state or bloc. This argument holds even after we introduce uncertainty about the exact distribution of power or account for a range of costs associated with war. The introduction of uncertainty in the bipolar setting, in fact, turns the argument for the stability of bipolar systems on its head. Remember, bipolar systems are supposed to be less uncertain than multipolar systems.

Now let's consider two different multipolar systems. Each system consists of five nations (or blocs of nations): A, B, C, D, and E. System I contains the following possible power distributions: A = 75, B = 74, C = 75,

D = 74, and E = 2. System II's power distribution differs slightly: A = 78, B = 74, C = 73, D = 73, and E = 2. According to the assumptions of neorealism, what can we say about the stability of these systems?

System I (75, 74, 75, 74, 2) is a stable system. No state can be eliminated from the international system given the current distribution of power—not even state E, although E holds only 2/300 of the total power. In fact, state E is an important stabilizing element in this system because it can join with states B and D, building a coalition strong enough to protect itself (and B and D) from the remaining combination of rivals, A and C. State E helps itself and other states enhance their security.

According to neorealism, any combination of states with power totaling more than half the available capabilities can defeat any combination of opponents. For hypothetical systems with 300 units of power, then, any combination of states that controls more than 150 units of power can defeat the remaining states. As such, in accordance with the fourth neorealist assumption, each state has an incentive to prevent the formation of such a coalition if the alliance excludes that state. By forging a **blocking coalition** that itself holds 150 units of power, states can ensure their security. Viewed mathematically, we can say that, where R = resources (i.e., power), the blocking coalition must equal $R/2$. Recall that in our earlier bipolar system, stability was achieved when each pole formed a blocking coalition with $R/2$ units of power (i.e., 150 each).

In System I, as previously noted, nation E might align with nations B and D ($74 + 74 + 2 = 150 = R/2$) against A and C. This arrangement is stable in that neither side is strong enough to eliminate any one state. Each state in the system is essential because each state can turn a losing coalition into a winning coalition or a blocking coalition. Notice that if A attacks E, other states will join to defend E and defeat A. They will do so because if they do not their own security will be diminished by the lost opportunity to form a blocking coalition with E or a subsequent winning coalition against A. By ignoring E's plight, C and D place their own future security at risk. This is something they would not do according to the assumptions of neorealist theory and, therefore, A will not attack E. Less obviously, B's security also will be at risk. Under the assumptions of neorealism, there is no sustainable additional benefit in regard to security for B (or anyone else) once a coalition with $R/2$ resources has formed. The power distribution may or may not remain stable, but all the states will survive because they all play a crucial

role in helping to preserve someone else's security and so they can credibly commit to ensure one another's survival. There is no need to redistribute power to ensure security, although security could be ensured even if the power were to be redistributed. For example, a redistribution of power to 75, 75, 70, 70, 10, would also engender stability, as would a redistribution that gave any one state 150 units of power.

But notice that in System II (78, 74, 73, 73, 2) there is no combination of states that cares to ensure the survival of nation E because no state requires E's assistance to form a blocking or winning coalition. E cannot extract a credible alliance commitment from any other state. Nation A can form a winning coalition just by joining with B, or, if B is not willing, by aligning with C or D. Adding E to any of these coalitions is superfluous. B, likewise, can forge winning coalitions by aligning with A or with C and D. No winning or blocking coalition can form from an otherwise losing coalition by adding nation E to it. Consequently, E is expendable. Should any of the remaining states (or all of the remaining states) defeat and seize E's two units of power, this will not change their ability to form winning coalitions. Thus, A, B, C, and D have ensured security for themselves by being an essential component of at least one blocking or winning coalition; in contrast, E is an **inessential actor**.

We can see how System II might evolve by applying to it the rules of neorealism. States A and D might threaten to gobble up states B, C, and E, provided that A and D can credibly commit to one another to evenly split all available resources at the war's end. If no power is dissipated in war costs, each would acquire 150 units of power at the end of the fighting. If either accepted anything less, it would quickly succumb to its erstwhile ally. States B, C, and E would obviously be unhappy with this state of affairs. States B and C might therefore head off such a threat to their security by approaching A and offering it a deal that is at least as good for A as the one it could have by forming an alliance with D to destroy B, C, and E. B and C might suggest to A that it destroy E and thereby gain E's 2 units of power (so it now has 80 units of power instead of just 78) and, in addition, take 35 units each from B and C, each of whom would give it willingly—say, by transferring territory or some other tangible source of power—so that A will end up with 150 units of power without ever having to fight a big war against B, C, and E and without having to take the risk that D might come out ahead of A in the war. Under this arrangement, although B and C sacrifice power, they ensure their

survival because once A has 150 units of power ($R/2 = 150$), the surviving states are all essential and so can credibly commit to one another's defense. The new distribution of power might be $A = 150$, $B = 39$, $C = 38$, and $D = 73$; or, perhaps, $A = 150$, $B = 74$, $C = 3$, and $D = 73$; or any of a number of other possibilities.

In summary, state E is an essential actor in the first hypothetical multipolar system. In System I, no one can afford to see state E eliminated. Its demise would needlessly place someone else's future security at risk, in direct violation of neorealist assumption 4. In this system, for any winning alliance that could form, some other state can offer a better deal (i.e., more security) to some member of the winning combination in exchange for its support in a blocking coalition. Because of the possibility of switching alliances to get a better deal, no state is expendable in this system. Thus, System I is stable although the distribution of power may be subject to change.

The second hypothetical multipolar system, although similar to the first, is not stable according to neorealism because there is no circumstance in which E can survive that is consistent with neorealist assumptions. Other states can increase their power by destroying E without placing their own security at risk. The key to stability, at least in regard to the survival of states, is that each state be essential to the formation of at least one winning or blocking coalition. Although some states remain essential through a transfer of power to rival states, they at least survive. But states that are inessential cannot survive. As such, any system containing an inessential state must be unstable (Niou et al. 1989).

It should be evident that many different distributions of power in a multipolar system can be stable and that just as many others cannot. Among potentially stable multipolar systems—one in which every state can survive—are those in which power is perfectly evenly distributed among the member states. Such a system, however, is subject to power redistributions that shift the equilibrium away from perfect equality. This is so because a blocking coalition with power equivalent to $R/2$ that ensures the survival of all states can be formed without redistributing resources only if the system is multipolar, has an even number of members, and has resources that initially are equally distributed across the even number of poles.



TRY THIS

A survey of systems over the past 500 years makes clear that, contrary to the claims of neorealists and other structural theorists, the bipolar major power system that began in 1945 and ended in 1989 was not especially long-lived. Construct ten hypothetical multipolar systems of five blocs each that are stable according to neorealist criteria. Does this come close to exhausting the number of possible stable multipolar power configurations? If power is equally distributed in a multipolar system, how might a blocking coalition be formed? Does an exactly equal distribution of power ensure the survival of all states? Does it prevent any redistribution of resources?

Stability in a multipolar world is not limited to the situation of exact power equality. This is in marked contrast to the bipolar world, in which stability can be achieved only through a perfectly equal division of resources between the two blocs. Thus, it appears that the first neorealist hypothesis, that bipolarity promotes stability and multipolarity promotes instability, is logically flawed given the assumptions of the theory. Further, it seems that a true balance of power is essential for stability in a bipolar world, but not in a multipolar one, contradicting the second hypothesis. A vast array of power distributions can produce stability. In a multipolar environment, an exact balance of power is irrelevant. Either the balance of power does not matter in multipolarity or the term is defined to mean any system in which each actor is essential. In the latter case, so many systems qualify as a balance-of-power system that the concept doesn't have much meaning in our search for answers.

Bipolarity and Stability: A Second Look

You might object that the portrayal of the relationship between polarity and stability is too simple. After all, war or any other means of taking away a rival's power and threatening its sovereignty is a risky business. Success is not a certainty. More powerful states or alliances of states cannot be sure of their advantage unless that advantage is very large indeed (Morgenthau [1948] 1978). The risk associated with war may mean that a bipolar system

will still be stable even though power is not divided exactly equally between the rival camps.

Although this argument seems appealing, it cannot be used to salvage neorealism's argument that bipolarity is stable because it actually contradicts fundamental aspects of neorealist theory. We will return to the bipolar example of instability to see why this is so, but before doing so, let me remind you again that the basis for the claim that bipolar systems are more stable than multipolar systems hinges on the contention that multipolarity encompasses greater uncertainty than does bipolarity. In an effort to save the logical foundation of this hypothesis, I now turn this contention on its head by asserting that uncertainty is especially a problem in bipolar systems.

Suppose nation A thinks there is some chance, p , that it can defeat nation B. If this is so, then there is also a chance, equal to $1 - p$, that A will be defeated by B. For convenience, we can define p so that it equals the ratio of A's power to the sum of A's and B's power. A will not try to take advantage of B if it perceives that $p(U_{A \text{ winning}}) + (1 - p)(U_{A \text{ losing}}) < U_{A \text{ status quo}}$, where $U_{A \text{ winning}}$ is the utility for A of capturing B's power, $U_{A \text{ losing}}$ is the utility for A of losing its sovereignty to B, and $U_{A \text{ status quo}}$ is the utility for A of maintaining the status quo in terms of its level of security.

Suppose that A attaches a utility of 1 to capturing all of B's power and a utility of 0 to losing its sovereignty. In addition, we know that in accordance with neorealist assumptions A prefers capturing B's power to losing its own sovereignty or maintaining the status quo and that A prefers the status quo to losing its sovereignty. With these conditions in mind, we can develop rules for A that will guide its decision on whether or not to go after B's power. First, we need to rearrange the terms in our expression:

$$p > (U_{A \text{ status quo}} - U_{A \text{ losing}})/(U_{A \text{ winning}} - U_{A \text{ losing}}),$$

and then substitute our given values:

$$p > (U_{A \text{ status quo}} - 0)/(1 - 0),$$

to establish that

$$\text{if } p > U_{A \text{ status quo}}, \text{ then A will attack B} \quad (\text{Rule 1})$$

and

if $p \leq U_{A \text{ status quo}}$, then A will not attack B.

(Rule 2)

It is clear that the decision A makes depends on how much it likes or dislikes the status quo in regard to its security. States that are very unhappy with the status quo might, under rules 1 and 2, attack the rival pole in a bipolar system even though the rival pole is much stronger. That is, p could be quite small and still be bigger than the value such states attach to the status quo. Imagine, for example, that the value of the status quo is 0.1. This is more than the value of losing sovereignty (0) and less than the value of gaining B's power (1). If p is 0.2, then Rule 1, A attacks B, is satisfied. This is equivalent to saying that it is possible in a bipolar world for nation A to attack nation B when A's power is 60 and B's power is 240; that is, $p = A's \text{ power} / (A's \text{ power} + B's \text{ power}) = 60 / (60 + 240) = 0.2$. This is what is implied by the measurement of p based on the power of A compared to B and by a utility for the status quo equal to 0.1. So in this example, A attacks B even though A's chance of success in gaining power is very small. A's situation under the status quo is just so lousy that the downside is small compared to the upside of fighting and so even with a low probability of success the fight is worth the gamble.

A state that is relatively happy with the status quo might not attack B in a bipolar system, even if B is much weaker. That is, p could be very large and still be smaller than the value this state attaches to the status quo. For example, suppose that the value of the status quo is 0.9. Even if p is equal to 0.8, Rule 1 would not be satisfied, and A would not attack B. Even though A's power equals 240 and B's power only totals 60, A still would not feel confident enough to seize B's capabilities, given the high value of the status quo for A relative to a low probability but potentially disastrous defeat.

Such conclusions make a lot of intuitive sense. The problem is that they contradict neorealist assumptions. The fourth neorealist assumption limits the pursuit of increased power to just those situations in which national security is not at risk. As Kenneth Waltz, the creator of neorealist theory, has aptly noted in explaining neorealism:

In anarchy, security is the highest end. Only if survival is *assured* can states safely seek such other goals as tranquility, profit, and power. Because power is a means and not an end, states prefer to join the weaker of two coalitions. They cannot let power, a possibly useful means, become the end they pursue. The goal the system encourages

them to seek is security. Increased power may or may not serve that end.... The first concern of states is not to maximize power but to maintain their positions in the system. (1979, 126 [emphasis added])

Because an anarchic world almost never ensures survival, it is rarely possible from the neorealist point of view for states to trade between security and other desirable goals. Yet by assuming that the outcome of a contest for power is probabilistic, we necessarily introduce trade-offs between security (i.e., the preservation of sovereignty) and the quest for power. With probabilistic outcomes we can imagine a probability of success large enough to warrant putting security at risk (recall the example in which the probability of success is quite low). In doing so, we violate assumptions 3 and 4 and so are no longer examining the logic of neorealist theory but, rather, the logic of some other theory in which security need not take precedence.

The hypothesis that bipolarity leads to stability does not follow from the stated assumptions of neorealism. Although it is perfectly acceptable to develop additional assumptions to rescue a theory, no theory can be rescued by contradicting its own basic assumptions. Therefore, we cannot maintain the neorealist argument by acknowledging that leaders might make different choices about whether to try to gain power at the possible expense of security. Calculations concerning the value of the status quo versus the risks inherent in pursuing more power fly in the face of neorealist views about how states behave.

History and Neorealist Empirical Claims

Is it worth our while to try to save the bipolarity argument of neorealism? It would be if the record of history is sufficiently consistent with the hypothesis that we should find some logical explanation for the stability produced by bipolarity. There are many ways to go about figuring out whether a strong historical relationship exists between the international system's level of polarity and its stability. I address several of these now, mindful of Kenneth Waltz's admonition that all theory, including neorealism, should be subjected to distinct and demanding tests (1979, 13).



An East German soldier shakes hands with a West German woman through a hole in the Berlin Wall. The collapse of the wall signified the peaceful end to the Cold War and represented a fundamental challenge to the expectations drawn from neorealist theory.

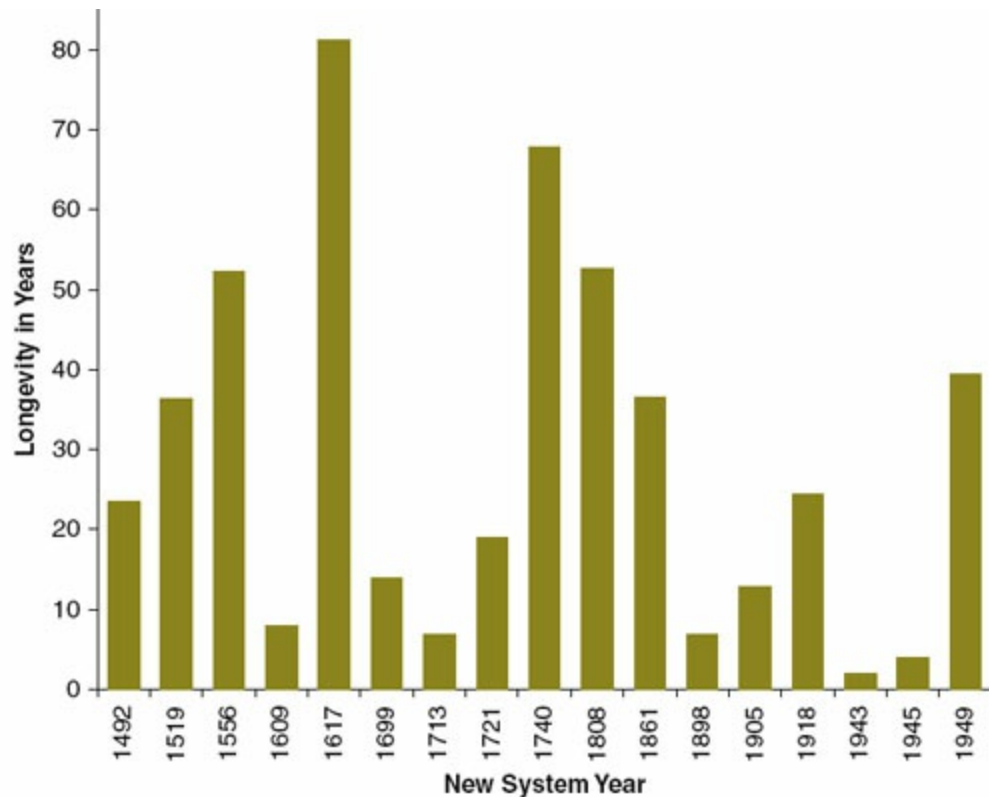
One method that seems to make sense in light of neorealist arguments is to evaluate how long the structure of the international system remained unchanged under different configurations. According to neorealists, the modern international system began in 1648 with the end of the Thirty Years' War. The international system was multipolar in structure from 1648 until the defeat of Germany in 1945. Thus, between 1648 and 1945 there were many major powers with no one or two predominating. The multipolar system lasted for 297 years, although many internal changes took place during that time with great powers rising and falling along the way. The bipolar system began in 1945 and lasted until about 1989, when the Berlin Wall was torn down, symbolizing the end of the bipolar cold war. Hence, the bipolar system lasted just forty-four years. The international system has now entered a new phase of multipolarity (the United States as one pole, perhaps the European Union as another, China as a third, Russia as a fourth, and perhaps India emerging as another) or, perhaps, **unipolarity** (with the United States as the globally predominant state). Of course, we do not know how long this will

last. It is evident, however, that the first multipolar period lasted much longer than the first bipolar system. In this sense, it appears that multipolarity is more stable than bipolarity but only in a very narrow sense.

Neorealists might sensibly object that this assessment is not correct. I have already noted that many internal changes occurred during the 297 years associated with the multipolar system. Spain, for example, was one of the great powers during the sixteenth and seventeenth centuries, but it certainly was not among this elite group of states in the nineteenth or twentieth century. The United States is the most powerful state in the world today, but it did not even exist in 1648 and remained a sleepy backwater at least until the Spanish-American War in 1898. If stability requires that the set of great powers remain unaltered, then each time the list of major powers changes, we can say that a new system has emerged. Using Jack Levy's (1983) classification of great powers since 1492, we can determine whether the longevity of the bipolar system was comparatively long or short.

Figure 5.4 shows the longevity of each system defined as the period during which the makeup of the major powers remained unaltered. It is evident that the forty or so years of the bipolar international system were neither unusually long nor unusually short. Many multipolar great power systems lasted longer; many lasted a shorter time. We cannot conclude on the basis of the longevity of the major power system that multipolarity produces less stability than the one instance of bipolarity. This is a more serious challenge to the proposition that bipolarity leads to system-wide stability since this test seems very close to what neorealists have in mind by stability.

FIGURE 5.4 **Stability of International Systems**



A survey of systems over the past five hundred years makes clear that, contrary to the claims of neo-realists and other structural theorists, the bipolar major power system that began in 1945 and ended in 1989 was not especially long lived.

Source: Levy (1983).

Of course, the longevity of a given international structure is not the only way to think about system stability. Another way to evaluate the stability of the international system is to examine the frequency of wars among the most influential states in the world, the major powers. During the bipolar years, there were two dominant powers: (1) the United States and (2) the Soviet Union. It is noteworthy that no war erupted between these two dominant states during those years. Still, although the superpowers never engaged in battle against one another, both fought several wars against other states (including proxy wars in which at least one of the superpowers funded the **war effort** of the proxy), and there was at least one war between a major power and a superpower during the bipolar years. The Korean War (1950–1953) saw combat between the United States and China. In addition, China and the Soviet Union fought sporadically along their extensive border. Although many casualties and deaths resulted from this, the Sino-Soviet conflict is rarely elevated to the status of war.

The peace between the two superpowers has been described by the historian John Gaddis (1987) as “the long peace.” Just how long it was and whether or not it was due to bipolarity are both tricky questions. Numerous changes in international affairs can be singled out to explain the long peace. Bipolarity is one, but there is no reason to think it a more or less plausible factor than several other possibilities. Consider, for example, the advent of nuclear deterrence. Nuclear deterrence tends to push the international system toward multipolarity, especially when several well-endowed nuclear powers make the costs of an attack excessive relative to the prospective benefits. Nuclear weapons may have raised the anticipated costs of war well beyond the level of any foreseeable benefits.

Some might point to the creation of the United Nations as a significant improvement over its prewar predecessor, the League of Nations, in helping to limit superpower warfare. Certainly the United Nations has been involved in numerous peacekeeping missions that have helped contain and resolve disputes that might have otherwise entangled the great powers (Fortna 2004). The most powerful arm of the United Nations is the Security Council. Each of its five permanent members—Britain, China, France, Russia, and the United States (sometimes called the P5)—can veto any resolution brought before the council and pretty much all major security issues not directly involving these P5 states do come before it. The UN Security Council (UNSC), then, by institutionalizing a multipolar decision-making structure, has provided a counterweight to bipolarity. This too may be an explanation for the long peace.

TRY THIS

Russia rolled tanks and thousands of Russian soldiers into the Republic of Georgia during summer 2008. The United States and the members of the European Union strenuously objected to Russia’s use of military force. Why didn’t this go to the UNSC? What could the Security Council have done to compel the Russians and Georgians to negotiate to find a solution to their differences?

Numerous other explanations for the long peace between the great powers have been put forth (Mueller 1989). The advent of commercial television and

the increasing frequency of intercontinental air travel, for example, have both been claimed as pacifying developments because each brings people closer together and fosters greater cultural understanding. Of course, it also could be said that familiarity breeds contempt. We should not leap too quickly to endorse these or the many other explanations of the long peace because each has counterarguments. Still, we have already seen that bipolarity as an explanation of stability has counterarguments that are at least as persuasive as the arguments in its favor.

Just how long has the long peace really lasted? The most obvious answer is that during all forty-four of the years between the end of World War II and the tearing down of the Berlin Wall there was no war between the superpowers; there was peace in a limited but important sense. But only thirty-six years passed without a war between two major powers (excluding the Sino-Soviet border fighting), and there was barely a moment without some smaller war going on—wars often involving a major power. Recall that the Korean War pitted the United States against China. In addition, the French fought in Indochina in the early 1950s; the French and the British fought in Egypt in the Suez War in 1956; the United States fought in the Dominican Republic, Grenada, Panama, Vietnam, and elsewhere; the Chinese fought in India and Vietnam, among other countries, and along the Soviet border; and the Soviet Union engaged in combat in Afghanistan, Czechoslovakia, Hungary, and along the Chinese border. It is reasonable to ask whether forty-four years or even thirty-six years (or less) is really an unusually long time without a war between major powers.

Again, we can turn to Levy's (1983) compilation to assess whether the long peace was really all that long. Levy's data show that thirty-eight years passed without a war between major powers from the end of the Napoleonic Wars (1815) to the beginning of the Crimean War (1853). Forty-three years passed between the end of the Franco-Prussian War (1871) and the beginning of World War I (1914).² Other lengthy intervals between major power wars can be found scattered throughout the past several centuries. Levy identifies seven general wars since the **Treaty of Westphalia**: the Dutch War of Louis XIV (1672–1678), the War of the League of Augsburg (1688–1697), the War of the Spanish Succession (1701–1713), the Seven Years' War (1755–1763), the French Revolution and Napoleonic Wars (1792–1815), World War I (1914–1918), and World War II (1939–1945). The average interval between general wars is thirty-four years; the longest interval is ninety-nine years,

much longer than the so-called long peace. It appears, then, that the bipolar, long peace cannot be considered unusually long after all and that bipolarity is not a superior treatment for the disease of major power war than is multipolarity.

TRY THIS

These calculations underestimate the weakness of the long-peace argument by counting intervals between any great power wars, whereas the bipolarity argument draws our attention to the two most powerful states and their allies. The more major powers there are, the higher the probability of a war between them if war is randomly distributed with regard to power. Look at the post–Thirty Years’ War world in terms of intervals without war between the two strongest states in each international system. How long are the intervals between wars when only the two most powerful states are counted?

OTHER NEOREALIST HYPOTHESES AND THE HISTORICAL RECORD

Another way to assess the predictive accuracy of the neorealist structural perspective involves the careful examination of what does follow logically from neorealist assumptions. We can then determine whether or not the hypotheses that follow logically from the theory are historically accurate. Several careful studies of the logic of neorealism have been conducted. Emerson Niou and colleagues (1989) carefully trace out the logic of neorealism and formally derive four central conclusions based on neorealist assumptions. These implications of neorealism, proven as theorems within a neorealist framework, are as follows:

1. Essential states never become inessential.
2. Essential states are never eliminated from the international system.
3. Inessential states never become essential states.
4. Inessential states are always eliminated from the international system.

An essential state, you will recall, is any state that can join a losing coalition and, by dint of its membership and the power it can bring to bear, turn that coalition into a blocking coalition or a winning coalition. Inessential states are states that are unable to turn even one losing alliance into a winning or blocking coalition.

The Survival of Essential and Inessential States

Each of these propositions is historically false. Austria-Hungary was an essential state at the outset of World War I. By the war's end, it had not only become inessential but was completely eliminated from the international system. Likewise, the Soviet Union was an essential state throughout the cold war—indeed, it was a superpower. Today, it does not exist. In fact, the Soviet Union willingly and peacefully gave up its sphere of influence and its status as a great power. It is not yet clear whether any of its successor states have willingly reduced their power to ensure their survival or are themselves inessential and possibly doomed to extinction. It is clear from Russia's incursion into Georgia in 2008 that the Russian government is reasserting Russia's place among the great powers. After all, it chose to solve its dispute with Georgia by force rather than, for instance, seeking UN approval to impose economic sanctions on Georgia or negotiating directly with the Georgian government. How dependent Russia's efforts to establish itself as a great power are on the fluctuation of oil and natural gas prices—Russia is one of the world's largest oil and natural gas exporters—remains an open and important question.

TRY THIS

Add to the list of once-essential states that are now inessential or that no longer exist. Identify some once-inessential states that are now essential or that still exist but remain inessential. If possible, list states in each of these categories over the span of the past three or four centuries.

The United States in the nineteenth century was an inessential state. Obviously, today it is an essential player; it is arguably the lone remaining superpower. This cannot happen according to neorealist logic. Many other

examples can be given to show that the four propositions identified by Niou and colleagues (1989) from neorealist logic are simply not consistent with history.

Balance of Power and Neorealism

Perhaps the most common claim among neorealist theorists is that war occurs only when both sides believe that their chance of winning is greater than 50 percent. This is a partial statement of what has come to be known as the balance-of-power theory. It invokes the idea that war is the product of mutual optimism by rival states, meaning that they overestimate their chances of victory so that their subjective probabilities of victory sum to more than one. From a game theoretic point of view, there is controversy over whether such a state of affairs can be logically consistent or indicates that one or another party to a dispute is ignoring important information that would force it to adjust its view of its chances of victory, taking into account the observed actions of its rival (Ramsay and Fey 2006).

Many eminent scholars and statesmen have suggested that, when power is fairly evenly distributed, peace is likely to prevail; however, they contend that, when power is unevenly distributed, the risk of war increases. Still, these scholars and statesmen sometimes disagree on exactly what is meant by an even, or balanced, distribution of power. Some emphasize the effects of the distribution of power among influential states; others emphasize the effects of the distribution of power among coalitions or blocs of states. These two emphases can mean two very different things.

Consider the estimates of national power depicted in [table 5.1](#). The table shows estimates of the national capabilities of the seven states that were major powers in 1896. It also shows the capabilities of these powers based on their aggregation into military blocs (with Britain remaining sufficiently distinct in its foreign policies to be considered a bloc unto itself) in 1896, based on calculations of similarity in their military alliance commitments. The data are drawn from the Correlates of War project. The list of capabilities of each of the major powers presents quite a different picture from that of the three major power blocs. The individual states were quite unequal in their relative power. Britain alone controlled more than 28 percent of the capabilities of the major powers. Japan controlled less than 5 percent, and Italy controlled just barely more than 5 percent of the major power

capabilities. Yet the bloc that Italy belonged to, which included Germany and Austria-Hungary, possessed almost 35 percent of the total capabilities of the major powers. A second bloc, composed of Russia, Japan, and France, controlled a little less than 37 percent of total capabilities. Britain, in a bloc by itself, possessed the remaining 28 percent.

TABLE 5.1 The Major Powers' Balance of Power in 1896

Country	Power (%)	Blocs formed	Power (%)
Germany	21.4	Germany, Austria-Hungary, and Italy	34.9
Austria-Hungary	8.4		
Italy	5.1		
Russia	17.3	Russia, Japan, and France	36.9
Japan	4.6		
France	15.0		
Britain	28.2	Britain ^a	28.2
Total	100.0		100.0

Note: a. Britain did not form a bloc with other nations.

One way to measure the extent to which power is unequally divided is to add up the absolute differences between the power of the average nation (or coalition of nations) and the power of each individual nation (or coalition of nations).³ If every unit has exactly the same amount of power, then our measure of the balance of power will equal 0 (i.e., the total absolute deviation from the mean equals 0 percent). If one state (or coalition) has all the power and the others have none (the most unbalanced system possible), then the balance-of-power measure will be 100 (i.e., the total absolute deviation from the mean equals 100 percent). If we focus on the individual major powers in [table 5.1](#), we find that the balance-of-power measure equals 49.5, which reflects a great inequality in the distribution of power among the major states in 1896. In contrast, if we focus on the major power alliance blocs of 1896, we find a more balanced system. In fact, the sum of the absolute deviations from the mean for each bloc is only 15.3 percent. Clearly, the manner in which we group power (i.e., by states or by blocs) profoundly influences whether or not we define a system as balanced. Whichever measure we use, however, it turns out that there is no systematic relationship between the likelihood of war and the balance of power (Singer, Bremer, and Stuckey 1972; Organski and Kugler 1980; Bueno de Mesquita and Lalman 1988,

1992).

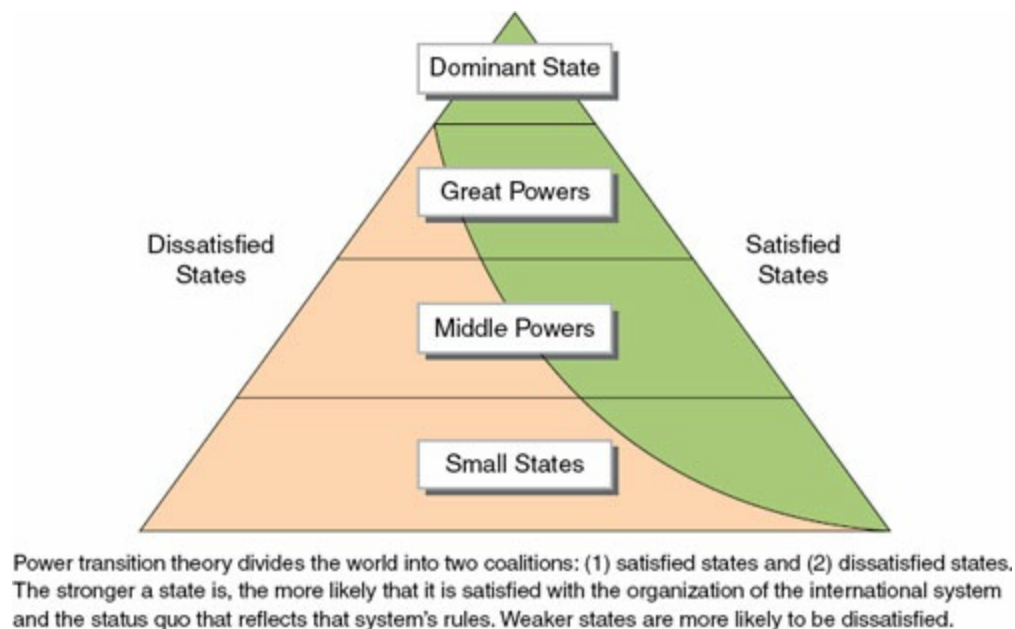
Nor is there a significant association between estimates of the probability of victory for either side in a war and the preparedness to initiate a war. Of 106 interstate wars started between 1816 and 2001 for which the data are available, 66 were initiated by the stronger side and a substantial 40 by the weaker side; that is, 38 percent were started by the set of initial belligerents on one side who were collectively weaker than the adversaries they chose to attack.⁴ Recall that a critical element of the realist/neorealist balance of power perspective argues that a necessary condition for war is that each side in a dispute believes its chance of victory is greater than fifty-fifty (Waltz 1979; Blainey 1988; Niou et al. 1989; Bueno de Mesquita and Lalman 1992). Restated in terms of the variables of interest here, if the balance of power on the initiating side is not greater than half of the power in the dispute then no war should occur (necessary conditions: if not A then not B). Thus, we should expect that the initially weaker side in a dispute should never initiate war. If the neorealist hypothesis were correct, we should observe no wars initiated by the weaker side. The evidence fails to support the hypothesis. Of course, measurement error could be large enough to let a few cases slip in, but forty is way too many discrepant cases to believe that it is necessary for initiators to believe their odds of victory are better than fifty-fifty.

THE POWER TRANSITION: A STRUCTURAL ALTERNATIVE TO NEOREALISM

Building on the work of Edward Carr (1939, 1945), A. F. K. Organski (1958) constructed what was perhaps the first challenge to realism that was neither idealistic nor normative. Organski's power transition theory shares with realism a focus on the importance of power in international affairs. However, it breaks with the balance-of-power realism of Morgenthau and Waltz, most notably by maintaining that the international system is not anarchic. Instead, foreshadowing the later development of neoliberal theory (Keohane and Nye 1977) and the study of international political economy, Organski suggests that the international system is hierarchically organized. [Figure 5.5](#) depicts the power triangle that Organski suggests captures fundamental elements of international affairs. The triangular shape reflects the observation that the more powerful and influential a category of states is, the fewer the states in

that category. Many nations are small with few resources with which to influence international relations. Some examples of such states include Chad, Haiti, Laos, and Liechtenstein. Middle powers are less numerous, as reflected by the smaller area of the power triangle given over to them, but they are generally more influential than the small states. Examples of middle powers include Mexico, the Netherlands, Nigeria, and Pakistan. The great powers, such as Britain, China, France, and Russia, exert substantial influence over international affairs. The dominant state throughout the post–World War II years has been the United States. Its position at the pinnacle of the power triangle is ensured by a combination of great national wealth, great per capita wealth, and overwhelming military prowess. According to Organski’s power transition viewpoint, there is only one dominant state at any given time. In that sense, the world is never really bipolar. The preponderant power’s greatest advantage is that it establishes the fundamental rules and norms of behavior in the international arena.

FIGURE 5.5 The Power Transition Power Triangle



Source: Organski (1958).

Figure 5.5 also hints at another assumption of Organski’s power transition theory and also of Robert Gilpin’s similar theory of hegemonic stability (1981). The shaded area in the power triangle indicates that there is a set of

satisfied states, content with the international order. However, the larger, unshaded area indicates that most states are dissatisfied with the international order. In this view of the world, rather than wishing to maximize security or power, nations are interested in maximizing their control over the rules and customs that govern international interactions so that they can define the status quo according to their interests. **Dissatisfaction**, then, is most prevalent among those least content with the existing status quo. However, it is the more powerful dissatisfied states that represent the biggest threat to international peace and stability. If they have the wherewithal, they will, according to power transition theory, try to alter the hierarchy to put themselves at the top.

The rules of the international system are selected by the dominant state and enforced by that state and other members of the satisfied coalition. System-transforming conflicts occur when a dissatisfied state gains sufficient power to challenge the existing order. Thus, we can see that the focus of hierarchical theories such as the power transition theory is very much on the rules and norms that govern behavior rather than on the distribution of power or state security per se.

The supposition that the dominant state determines rules and norms of action is an important departure from neorealist thinking. Although power transition theorists share the neorealists' view of the state as the central actor in international affairs, they disagree with the assumption that all nations are trying to maximize power and security (Organski 1958; Organski and Kugler 1980; Kim and Morrow 1992; Lemke 2002). Rather, power transition theorists argue that states have policy objectives that they wish to impose on other states. These goals or objectives can best be imposed by establishing rules and norms that govern international interactions. Control over the rules and norms, then, is tantamount to control over the course of international politics.

The very fact that a dominant state can impose rules suggests that it has the means at its disposal to enforce those rules. Enforcement depends on power. As such, power transition and hegemonic stability theorists consider power to be the essential instrument of international affairs. In this way they differ markedly from the idealists, who dominated thinking about international relations before World War II. For idealists, ethics, morality, and maximizing collective welfare, rather than individual national well-being, were the normative guideposts for international intercourse. Their views are

currently enjoying a renaissance in more sophisticated constructivist theories about the role that ideas play in international affairs (Katzenstein 1985; Goldstein and Keohane 1993; Wendt 1999). For power transition theorists, however, normative concerns or social constructions are not central to understanding international relations.

Examples of International Rules and Norms

What are the rules and norms governing international politics? Examples abound both in the domain of international economic exchange and in that of security. After World War II, the United States promoted a currency regime known as the **Bretton Woods Agreement**. At Bretton Woods, the US dollar became the currency against which the value of all other currencies was pegged. Before Bretton Woods, much of the world was on the gold standard, meaning that the price of an ounce of gold was fixed but the amount of a given currency that was needed to purchase that ounce of gold fluctuated. The gold standard began to crumble during the years between the first and second world wars, with international financial interests looking for a substitute (Simmons 1994).

Under the Bretton Woods Agreement, the US dollar took over the role of gold, becoming the fixed standard against which other money was valued. This meant that the dollar became the most desired means of exchange in international markets and, hence, that the United States was at center stage in economic dealings. Even today, such a major commodity as crude oil is traded by the barrel, priced in dollars.

The abandonment of the Bretton Woods Agreement by President Richard Nixon led some observers to speak of a decline in American hegemony (Keohane 1984; Kennedy 1987). Whether there was a decline in American hegemony or not (Russett 1985; Strange 1987; Kugler and Organski 1989), what is important to recognize here is that the Bretton Woods Agreement represented a new set of rules imposed on the international community after World War II by the hegemonic United States.

Over the past several decades, the United States has been the world leader in pressing for the establishment of a free-trade regime, first through the General Agreement on Tariffs and Trade (GATT) from 1947 to 1995 and then through the World Trade Organization (WTO). Although, as we see later, the United States has not always practiced free trade itself (see [chapter](#)

10); it has steadfastly promoted free trade among other nations (see [chapter 11](#)). If past behavior is a good predictor of future policy, then despite US deviations—such as taking over the big financial house of Bear Stearns, bailing out the giant insurance company AIG, and buying up bad mortgage loans that were freezing credit markets following the 2008 recession—from a market orientation, it is likely to continue to promote global market solutions to most economic problems in the poorer parts of the world.

The free-trade regime enforced by the WTO and other trade arrangements such as the North American Free Trade Agreement (NAFTA) establishes rules for judging whether or not specific trade practices are protectionist. Even though their enforcement powers are limited, these agreements still maintain a rule-based and normative influence on the trading practices of their members. For example, tariff levels are today less than one-tenth of what they were in 1947, when the GATT first began to operate, and they appear to continue to be dropping under the supervision of the WTO. This is the direct consequence of the trading rules promoted by the United States—rules that have helped, as we will see in [chapter 11](#) when we discuss globalization, to promote growth and lift millions, perhaps even billions of people out of poverty.

Perhaps the most visible norm engendered by the US international leadership has been to argue in favor of the promotion of democratic institutions (but see [chapter 14](#)) and the protection of human rights (but see [chapter 9](#)). These ideas are clearly embedded in the American perception of what constitutes an appropriate basis on which people should be governed. Long before the United States emerged as a hegemonic power, it was touting the benefits of democratic practices. Most visible among its early efforts was the inclusion of self-determination as one of Woodrow Wilson's famous fourteen points, articulated at the end of World War I.

Although the United States has certainly collaborated with nondemocratic and even antidemocratic states and has sometimes stymied democratic development elsewhere, still its closest ties have always been reserved for like-minded governments. It is unlikely that NATO, for example, would have remained as cohesive as it did throughout the cold war if the members had shared only a common fear of the Soviet Union. Surely, if that were the only glue holding NATO together, some members would have defected and made separate arrangements with the Soviets. All the members of NATO, however, shared a common commitment to democracy and human rights at least on

their own turf. Indeed, some western European states, such as Spain and Portugal, were prohibited from joining NATO or the European Community until their dictatorships (under Gen. Francisco Franco in Spain and Antonio de Oliveira Salazar in Portugal) were replaced by democratic systems. Likewise, NATO expansion to include Eastern European states formerly in the Warsaw Pact has depended in part on the ability of those states to demonstrate a commitment to democratic norms of conduct. Yet, as we see in [Chapter 14](#), there are few examples in which the United States successfully exported democracy to other countries, and there are good reasons that few examples exist.

On the security front, the United States was a prime mover behind the establishment of the United Nations as an institution designed to promote peace throughout the world. Although the UN General Assembly has frequently voted in support of points of view opposed by the United States, the United States remains an active UN participant. The United States, especially during the presidencies of George H. W. Bush, Bill Clinton, and Barack Obama, steadfastly looked to the United Nations to provide legal, political, and moral support for major international military interventions. It has relied on UN coalitions to justify wars against Iraq and Afghanistan and military actions against Somalia, Haiti, and others. It relied on the United Nations to agree to stiff economic sanctions against Iran and the US and others failed to intervene in Bashar al-Assad's violence against his own Syrian people without the approval of the Security Council. To be sure, US political and financial support of the United Nations has waxed and waned, as during the buildup to the 2003 war against Iraq, but the United States today remains a promoter of a peacekeeping, security-providing role for the United Nations.

It is not difficult to imagine that many of the rules and norms promoted by the United States would have been discarded had the Soviet Union won in the competition to become world hegemon. Certainly, the Soviets were interested in promoting socialist economic systems rather than the free-trade, market-oriented regime espoused by the United States. The Soviets would have promoted authoritarian governments, as they did throughout their sphere of influence, to protect and enhance the control of communist parties around the world. And they probably would not have supported the United Nations politically if it routinely opposed their point of view.



TRY THIS

What rules or norms of international conduct did Britain try to enforce around the world during its time as the hegemonic power of the nineteenth century? Provide examples of changes in conduct imposed by the French under Napoleon on their far-flung empire. Had Germany won World War II, what might it have introduced as the norms and rules of international relations? In less recent times, did the Catholic Church impose rules of behavior on other states when it was Europe's hegemonic power? How was the Church's hegemony challenged and ultimately defeated? Look back still further to ancient Rome or Greece. What rules did they impose? Examine Edward Creasy's *Fifteen Decisive Battles of the World* ([1851] 1960). He chose his "decisive" battles precisely because they represented turning points in international norms and rules.

Dissatisfaction, the Status Quo, and War

When their perspectives on the rules governing international interactions differ markedly, the dominant state and those in the groupings below them in the power triangle may clash. Dissatisfaction with the status quo becomes the principal source of international tension. Conflict arises when a powerful, dissatisfied state grows strong enough to challenge the authority of the hegemon. Because such a challenge concerns the very way in which international affairs are conducted, the ensuing conflict is fierce and costly. Wars over changes in the rules have the potential for transforming the international system.

But when do such wars occur? The dominant state will not sit by and permit the challenger to pass it by in terms of power. It will not peacefully concede control to the upstart. At the same time, the challenger is reluctant to start a fight before it has enough power to give it a credible chance of defeating the hegemon. The conjunction of these conditions arises, according to power transition theorists, when the two rivals are just about equal in power. This time period during which the challenger roughly comes to equal and then surpass the dominant state in power is known as the power transition. It is the time when the threat of a major war is hypothesized to be

at its peak.

Contrary to the balance-of-power perspective, power transition and hegemonic stability theorists believe that major wars are most likely to occur when the power of the opposed states is about equal. According to these theorists, a balance of power promotes war. They maintain that system-transforming wars—that is, wars that lead to a new power hierarchy and to new rules and norms—will occur only when the power of a challenger and the dominant state are about equal and the power of the challenger is increasing faster than that of the dominant state. These claims have been extended and shown to have empirical strength at the regional as well as the global level, so that regional hegemons apparently face the same pressures and the same sources of war as their global counterparts (Lemke 1996, 2002).

How does a threatening balance of power develop in the first place? It should be evident from the power triangle that it is virtually impossible for transition-inducing conflict to emerge as a result of alliances. After all, satisfied states are concentrated at the upper reaches of the power triangle; they are not likely to join forces with a powerful dissatisfied state intent on challenging the hegemon because satisfied states, by their very definition, prefer the rules and norms of the existing status quo to those of a potential hegemonic rival. Thus, we must look elsewhere for the source of the shifts in power that create a transition-inducing balance of power.

For power transition and hegemonic stability theorists, a threatening balance of power emerges as a result of differing rates of internal growth between a dominant state and a challenger state. These theories still give little attention to domestic politics per se, but they do recognize that internal factors shape rates of growth. In fact, power transition theory defines domestic affairs as those issues pertaining to economic matters, such as the skills of the population; the quality of infrastructure; and the value of national resources such as labor, capital, and natural assets. Domestic politics affects these matters only in that each polity varies in its ability to mobilize its society's wealth for foreign (or domestic) policy purposes. Growth rates themselves are not viewed as a product of strategic decision making or internal politics in contrast to the selectorate theory introduced in [chapter 2](#). Quite the contrary, the leading power transition theorists maintain that any country's long-term rate of economic growth is inevitable and cannot be altered, even by such massive shocks as national defeat in war (Organski and Kugler 1980; Kugler and Lemke 1995), even if such a defeat results in

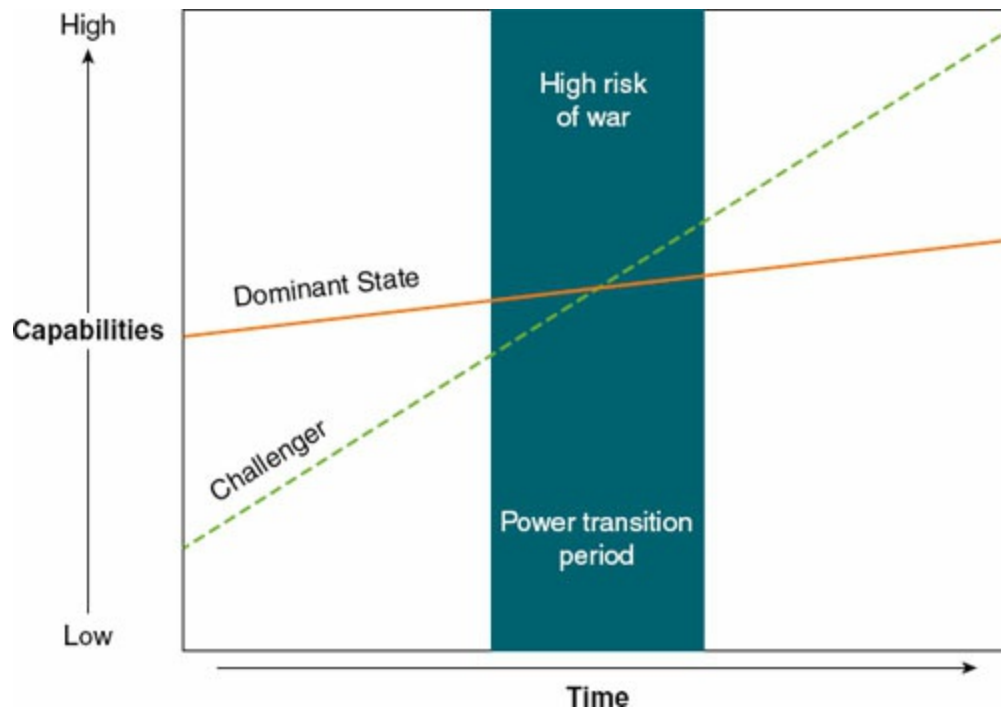
altered domestic political institutions.

The likelihood of war, as predicted by the power transition and hegemonic stability theories, is summarized in [figure 5.6](#). When a dissatisfied state lags far behind the dominant state in power, war is not expected to occur. Likewise, if the rising challenger state overtakes the dominant state by a substantial margin of power, war again is unlikely. In this case, a peaceful transition takes place. But when the challenger's power rises quickly, first to equal and then to overtake the dominant state, a wrenching, system-transforming power transition war is predicted to be likely to occur.

Power transition theory leads to the hypothesis that system-transforming, high-cost wars are especially likely when a dissatisfied challenger state achieves approximate power parity with the dominant, status quo–defending state.

Organski and Jacek Kugler (1980) subject the power transition theory's core war hypothesis to empirical testing. They note that there are three different types of power distributions that can arise between states: (1) the challenger can be significantly weaker than the dominant state, (2) the challenger can be about equal in power to the dominant state but not growing so fast as to appear to be overtaking the hegemon, or (3) the challenger can be about equal in power to the dominant state and be growing so fast that it appears to equal and then overtake the dominant power. Organski and Kugler hypothesize that major wars can occur only in the third circumstance. [Table 5.2](#) shows the results of their examination of interactions between major powers from 1815 to 1980. The table indicates that there is a statistically significant probability that the power transition theory's main war hypothesis is accurate, although some critics have raised important questions about the method of case selection (Siverson and Sullivan 1983).

FIGURE 5.6 Power Transition Theory and the Likelihood of War



The power transition argument has been formalized to tease out its precise logical implications. Woosang Kim and James Morrow (1992), for example, show that although some of the core hypotheses stated by Organski and Kugler are in fact borne out by precise formal logic, other important hypotheses are not and must be modified. Kim and Morrow show that there is a critical time during which the risk of war is at a maximum. This occurs when the challenger feels that the costs of deferring an effort to defeat the existing status quo are equal to the benefits that would be obtained from proceeding with such an effort and when the dominant state believes that the costs of fighting are less than the costs of granting concessions to the challenger. However, the emergence of that critical interval during which both states are prepared to fight does not depend on an equal or approximately equal distribution of power (Kim and Morrow 1992; Powell 1996).

Kim and Morrow have shown that the distribution of power at which the rivals will fight depends on their willingness to take the risks of waiting. The longer the challenger waits to attack, the higher is its probability of victory. This is true because the challenger's power is growing faster than the dominant state's power. Thus, the longer the challenger puts off a war, the greater will be the odds in its favor. However, the longer it waits, the longer it

must endure the rules of international intercourse with which it is dissatisfied. The challenger's decision about whether or not to attack the dominant state, then, depends on its inclination to take risks, on how quickly it is growing in power, on how costly the war is expected to be, and on how unhappy it is with the status quo. Kim and Morrow have shown that the interval during which the challenger is willing to fight expands as the expected costs of the war increase, as the challenger's dissatisfaction with the status quo increases, as the challenger's relative growth rate declines, and as the challenger becomes more risk acceptant.

TABLE 5.2 Empirical Evidence for the Power Transition Theory, 1815–1980

Does war occur?	Power is unequal	Power is equal and challenger is not overtaking hegemon	Power is equal and challenger is overtaking hegemon
No	4	6	5
Yes	0	0	5

Source: Adapted from Organski and Kugler, 1980.

Note: The table shows the results of a τ_c statistical test, which is a test of correlation for ordinal data that evaluates the magnitude of deviations in an asymmetric matrix for the data from the diagonal running from the upper left cell to the lower right cell. Here, $\tau_c = 0.5$ and probability < 0.05 . Cell entries represent the number of great power-hegemon pairings satisfying the conditions specified in the cell's column and row headings. For instance, Organski and Kugler's data include four instances of pairings of a great power and the dominant state (hegemon) with unequal power between them and no instance of war.

Conversely, the longer the dominant state waits, the worse its political and military prospects will be. The difference in their respective growth rates places the dominant state increasingly at a disadvantage relative to the challenger. For the hegemon, then, waiting is risky business. But it does forestall the day when the hegemon may lose control over the rules of the game, making it impossible for the hegemon to credibly commit to altering the international rules and norms by peaceful means before it absolutely has to. The dominant state's willingness to fight is postponed, making war less likely to be tied to the period of the power transition, if there is a war at all, as the expected costs of war decrease and as the growth rate of the challenger increases. Under these circumstances, the hegemon becomes increasingly risk averse. How long the challenger and the dominant states will wait before

fighting, then, depends on their respective responses to risk, their relative rates of growth, the expected costs of the war, and their respective degrees of satisfaction with the status quo.

The empirical evidence supports some claims of power transition theory, but other important power transition hypotheses fail the empirical test. For example, differences in growth rates turn out not to be crucial empirically. Critically, power transitions need not occur at the time of approximate equality in power. Indeed, power transitions per se cannot explain especially costly wars. As Paul Huth has observed, “No state initiates war if it expects the war to be long and bloody” (1988, 74). In fact, although there is a critical time during which wars are more likely to occur, that period of time is not a function of the distribution of power and can fluctuate widely to either side of a power balance, depending on the specific risk-taking proclivities of the relevant leaders, the magnitude of dissatisfaction with the status quo, the anticipated costs of war, and the precise growth-rate differential between the challenger and the hegemon.

TRY THIS

Table 5.2 shows a statistical test, called τ_c (tau-c), which assesses the correlation between the conditions of the power transition theory and the likelihood of war. It is statistically significant and so lends consequential support to the power transition theory’s most important hypothesis. However, there is another way to look at the table. We generally want to know how much better a theory does at predicting events (in this case, whether specific great powers will wage war or not) than the naive prediction that the most frequently occurring outcome will happen in every case. That is, we want to know what percentage of the predictive errors made with the naive approach are eliminated by the theory being tested. This is known as the proportionate reduction in error (PRE). The PRE equals the sum of the maximum cell value in each column of the table minus the maximum row total (that row total being the number of cases we get right just using the naïve prediction) divided by the number of observations in the table minus the maximum row total. The denominator tells us how many additional cases we *could* get right with our theory that we miss with the naive prediction. The numerator tells us

how many additional cases we *actually* got right with our theory compared to the naive prediction. What is the PRE gained from the power transition theory, as indicated by the evidence in [table 5.2](#)? What should we infer when different statistical tests legitimately lead to different conclusions about a theory's explanatory and predictive potential?

SUMMARY

In this chapter, we have seen that war is *ex post* inefficient and can—but need not—arise because of uncertainty, commitment problems, or a dispute over an indivisible objective. We have also examined the central hypotheses of two major structural theories of the causes of war: (1) neorealism and (2) power transition theory. Neorealism's claims that bipolarity promotes stability, that uncertainty provokes instability, that states routinely mimic one another, and that a balance of power fosters stability are logically problematic and unsupported by the historical record. The alternative structural explanation presented here, the power transition theory, is consistent with the historical facts with regard to some of its core predictions but not others. Neither theory seems to provide a sufficiently robust explanation of why or when war is likely.

Scientific progress in understanding how the world works is made by building progressively on the ideas that we inherit and discarding those parts that clearly fail us in exchange for superior alternatives. Much valuable debate has been stimulated by structural theories, and many useful insights have been gleaned from these approaches. However, as we see in [chapter 6](#), strategic game theory treatments of war provide alternative accounts that explain what structural theories explain and also explain things not accounted for by structural approaches such as neorealism or power transition theory.

KEY TERMS

[asymmetric information](#)

[bipolarity](#)

blocking coalition
Bretton Woods Agreement
dissatisfaction
essential actors
indivisible good
inessential actor
Instability
multipolarity
polarity
security dilemma
sovereignty
time inconsistency
transaction costs
Treaty of Westphalia
unipolarity
war effort

Answers:

1. b. War between states is becoming less common, but intrastate wars such as civil wars, guerrilla wars, and mass uprisings or revolution are becoming more common.
2. c. Generally, equally distributed power—the balance of power—has no consequential empirical effect on the likelihood of war or on other factors influencing the stability of the international system.
3. c. Neither bipolarity nor multipolarity seems to systematically influence the risk of war.
4. d. Transformative wars have been large (e.g., World War 1), small (e.g., the Seven Weeks' War), and everywhere in between.

¹ Germany's primary strategic importance during the Cold War lay in the fact that both the United States and the Soviet Union had stationed large numbers of troops on German soil. Germany was the point at which a war between the United States and the Soviet Union was

most likely to begin.

² We might object that the Russo-Japanese War qualifies as a war between major powers. Japan's status as a potential factor in global power politics, however, was established by its performance in that war and did not predate the event. Still, in some respects Japan had already attained great power status. If we include it among our list of great power wars, then the interval between the Franco-Prussian War and the Russo-Japanese War was thirty-three years.

$$\text{Balance of power} = \frac{\sum_{i=1}^n \left| C_i - \frac{1}{n} \right|}{1 - \frac{1}{n}}$$

³ That is, where C_i = capabilities of state i , and n = the total number of states (or blocs) being evaluated.

⁴ The estimates of the odds of winning examine the Correlates of War Project's capabilities measure for all countries on the initiating side of a war divided by the sum of the capabilities of the two sides at the outset of the fight.

6

Domestic Theories of War¹



A decade after North Atlantic Treaty Organization (NATO) forces first entered Serbia, regional conflict has necessitated their continued presence. In March 2008, French NATO peacekeeping vehicles were set on fire, and NATO troops came under fire during riots in the ethnically divided city of Mitrovica.

OVERVIEW

- War is correctly viewed as ex post inefficient from the perspective of national welfare; however, it can be efficient for leaders, especially those who head a small-coalition, autocratic government.
- When domestic politics plays a part in shaping demands for war, it can increase the credibility of threats, reduce the likelihood of threats, and alter the path of conflict escalation.
- Domestic politics alter the subject matter of war. Domestic accountability makes the pursuit of policy concessions and regime

change focal issues for democracies. In autocracies, the focal issues for which wars are fought involve resource acquisition and territorial conquest.

- Democrats try harder to win the wars they fight than do autocracies and democracies are more selective about their preparedness to fight. Selection effects identified by examining domestic politics fundamentally alters the trajectory of conflict from what is expected if we take the view that states are unitary actors.
- Weakness, a characteristic of terrorists and of many small states, may encourage otherwise peacefully inclined people to become unusually aggressive because they bring few bargaining chips to the negotiating table.

Assumptions Check

1. Would a rational actor continue to fight a war when the probability of defeat is nearly certain? If so, why? If not, why not?
 - a. Yes. A rational actor would continue to fight if the benefits are sufficiently large compared to the expected costs.
 - b. No. If the probability of victory is very small then suing for peace makes the most sense for a rational actor.
 - c. Maybe. It depends on whether the expected costs and benefits following surrender are better or worse than the expected costs and benefits from fighting to the end.
2. Which condition makes a government or group especially likely to initiate violence against its adversaries?
 - a. much greater military power than the adversary plus a hawkish outlook
 - b. much greater military power than the adversary plus a dovish outlook
 - c. much less military power than the adversary plus a hawkish outlook
 - d. much less military power than the adversary plus a dovish outlook

3. Does dependence on many domestic constituents with electoral clout make threats to use force more credible or less credible than if the domestic constituents were removed from the equation?
 - a. more credible because leaders who depend on many domestic constituents with electoral clout can anticipate being removed from office if they make threats in the international arena and then back down
 - b. less credible because domestic constituents are likely to be divided along partisan lines and so raise the specter of electoral defeat if the incumbent leader threatens to use military force to settle disputes
4. Partisan politics _____.
 - a. have no effect on foreign policy adventurism because partisanship ends at the water's edge
 - b. increase foreign policy adventurism to gain electoral advantage
 - c. decrease foreign policy adventurism to avoid electoral disadvantage

See end of chapter for answers.

THE DOMESTIC POLITICS OF INTERNATIONAL CRISES

International affairs are sometimes described as high politics, distinguishing them from the everyday pulls and tugs of ordinary domestic politics. That is one justification for thinking of states as unitary actors engaged in the high-stakes game of international politics. We are often taught that everyone rallies round the flag when their country is threatened by a foreign enemy—that partisan politics ends at the water's edge. I believe these elevated views of international politics are mistaken. One purpose of this chapter is to clarify this claim. Another is to place international affairs squarely in the context of domestic politics rather than the system-wide structural context we studied in [chapter 5](#).

It is my contention that all politics, no matter how much is at stake for the

nation and its people, is about leaders and their quest to stay in power as long as possible. If that is right, then state-centered theories of international politics leave us with some big explanatory holes to fill. Even so, we would be wrong to think that such theories have not helped greatly advance our understanding. They draw our attention to competition for political survival and that is an important insight. Their failing is to focus on *state* survival rather than *leader* survival, emphasizing the national interest over leader interests. We already saw in the introduction that Arrow's theorem gives us solid reasons to question the notion that there always is a readily discerned national interest. Even if we unanimously agree that the state's survival is paramount, we are left with divisions over how to secure that survival. Some, for instance, might be hawks arguing that the state is best protected by a large military and a firm response to any adversary. Others might just as fervently believe that being a dove, a conciliator who seeks out compromise, is the path to national security against the threat to the state's survival. Choosing how best to secure the nation's future is, as we saw in the introduction, potentially fraught with fundamental difficulty.

Now we push that insight more deeply to see how big a difference it makes when we think about international relations as just another arena for domestic political competition. It is surprising to discover how many unexpected implications follow from thinking that leaders are interested in their own political welfare rather than being interested in the welfare of their state. We will see some of those surprising implications in this chapter on war and domestic politics and even more throughout the remaining chapters.

A good starting place to think about leader interests is to reflect on the purpose behind some of the wars fought by American presidents in the name of the United States and the American people. The examples used here draw our attention away from ideas about the balance of power or bipolarity and focus us squarely on domestic politics. That is not to say that power considerations don't play a part in war and peace decisions but rather that wars without such seemingly important determinants are quite commonplace even though the theories studied in [chapter 5](#) suggest they should not exist. We will see that the international balance of power plays a part but that the balance of domestic political power often plays a bigger part.

In March 1999, North Atlantic Treaty Organization (NATO) forces, including American, British, Dutch, and German troops among others, began a bombing campaign against Serbia. The purpose of this action was to force

Serbian president Slobodan Milosevic to abandon his push to drive the Albanian population, of which 90 percent were Muslims, out of Christian Serbia's Kosovo province, killing them if necessary. The military campaign against Serbia was not motivated by a concern for the national security of the United States or even of the European NATO countries. Although it is true that conflict in Serbia and in the Balkans in general, was the proximate cause of World War I, few observers believed in 1999 that Europe would be destabilized if Albanian Kosovars were driven out of Kosovo and into Albania, Macedonia, and other neighboring states. To be sure, the flow of refugees posed an immense burden on the governments of the surrounding states, but it was not an existential threat to the members of NATO. If national security concerns were not a major issue, how can we explain the willingness of the NATO countries, and the very far away United States in particular, to wage war against Serbia? For that matter, how can we explain NATO's Operation Deliberate Force in 1995, designed to put an end to Serbia's foray into ethnic cleansing in Bosnia or efforts by the United States and the United Nations to put an end to the rule of warlords in Somalia in the early 1990s? How do we explain President Obama's commitment to withdraw from Afghanistan at least by 2014 despite the advice of his military leaders that the US mission in that country will falter without a more prolonged commitment? By the same token, how do we explain the US decision to participate in World War I, a case in which there was a clear threat to American commerce but little prospect of a fundamental threat to homeland security?²

The proposed answer to these questions is that the political leaders in NATO in 1999, leaders in other countries on earlier occasions, and, more recently, leaders of the war against the Taliban and Al Qaeda in Afghanistan calculated that the domestic and international repercussions of doing nothing were worse for their personal political future than the expected consequences of going to war. Having gone to war, these leaders continually updated their calculations, working out whether continuing in a war zone was better or worse for their own prospects of continuing in power. On the other side of such wars, leaders such as Milosevic in Serbia or the Taliban leadership in Afghanistan probably calculate that such foes lack the resolve to endure the high human and closely associated political costs that come with fighting (Gartner and Segura 2006; Gartner 2008). Milosevic probably believed that if he just stood firm, his rivals would ultimately seek a negotiated means to

bringing the war to a close, leaving him in power much as the US government left Saddam Hussein in power following the 1991 war against Iraq or committed to abandoning its combat role in Afghanistan before achieving a clear, stable, and desirable outcome. In these and so many other cases, it seems that domestic and foreign strategic factors, not global considerations such as the balance of power, came together to create a conflict that culminated in war rather than in a war-avoiding negotiated settlement. Here we have examples in which, as Fearon (1995) suggests, war might be ex post inefficient for the countries involved but, as Chiozza and Goemans (2004) note, war might not be inefficient for the individual leaders choosing between war and the peace of appeasement.

WHEN MIGHT WAR BE EX-POST EFFICIENT: THATCHER AND THE FALKLAND ISLANDS WAR

To illustrate the point that war can benefit political leaders even if it makes little sense from a national perspective, consider the Falkland Islands War between Britain and Argentina in 1982. The Falklands, or Malvinas as they are called by the Argentines, are small islands off the coast of Argentina. They are the home to about 3,000 people, mostly shepherds and fishermen. They are one of the last vestiges of the British Empire. Although the British have been there since the 1830s, Argentina claimed them as their own. The islands are, after all, nearly 8,000 miles from London. If ever there was a dispute that seemed readily resolved through negotiation this was it. And yet British prime minister Margaret Thatcher (1979–1990) chose to fight rather than give up these faraway islands of little economic or political value. Now, as it happens, she made a wise decision for her if not for Britain. One might readily have imagined spending a couple of billion dollars as compensation to the Argentines, for instance, to settle their claims. Many prospective wars in the nineteenth century were settled in just this way, by paying for contested territory. Indeed, even the US government paid Mexico for California *after* winning the Mexican-American War. But Thatcher chose to fight rather than offer such a deal, spending a couple billion dollars to defeat Argentina in the process.

Why did this make sense? One compelling answer is that Thatcher turned her career around by defeating Argentina. It was certainly true that she

needed something to make her more than a one-term prime minister. After becoming prime minister in 1979, Thatcher launched a major economic reform in Britain to try to turn its economy around. In the short term, her economic program and her fights with trade unions led to recession and high unemployment. In the wake of the economic downturn, she became extremely unpopular. At the end of 1981, for instance, her approval rating stood at a meager 25 percent. After the war, her approval rating rose to over 50 percent. Just one year later, she won a decisive electoral victory that would have looked virtually impossible 18 months earlier. She went on to remain in office until 1990, making her the longest serving British prime minister since Robert Banks Jenkinson, who served from June 1812 to April 1827. It is extremely unlikely that Margaret Thatcher could have won reelection without the war. It is hard to see how a negotiated settlement with Argentina would have attracted much attention let alone popularity for her even if it would have been the more efficient solution for Britain.

As we will see, military success helps democrats retain power. While victory is no guarantee of political survival, defeat makes removal a near certainty for democrats. A failure to achieve victory in Vietnam ended US president Johnson's career. French premier Joseph Laniel suffered a similar fate. His government collapsed following the French defeat by Vietnamese forces in 1954 at the Battle of Dien Bien Phu. British prime minister Antony Eden was forced to resign after his disastrous invasion of Egypt's Suez Canal Zone in 1956.

Autocrats, as we will see in more detail in [chapter 14](#), are much less sensitive to military defeat. Despite losing the first Gulf War and a costly and inconclusive result in the Iran-Iraq war (1980–1988), Saddam Hussein outlasted four US presidents (Carter, Reagan, Bush, and Clinton). Only defeat in the second Gulf War cost him his job, and that war was fought primarily to remove him from power.

Leaders like Saddam Hussein or Slobodan Milosevic are especially, though not universally, vulnerable to being overthrown in wars with democracies. This is true because efforts to contain or depose regimes engaging in horrific actions against their own citizens are more often the domain of democracies than dictatorships. Maybe that is just because democratic leaders are better people than their autocratic counterparts. More likely, it is because democratic leaders have to satisfy a large domestic constituency. That large constituency rarely pays much attention to foreign

affairs, but it certainly notices when horrific acts are committed and sometimes—if the victims are sufficiently sympathetic or the times are right—that horror translates into pressure for action. Domestic political arrangements, then, seem to play an important part in differentiating the calculations about when it makes sense to go to war and when it makes most sense to look the other way. It would be great to have some systematic ways to anticipate when horrific acts will get a tough response and when democratic regimes sit on their hands and do nothing, as has so far been the case as Syria's Bashar al-Assad slaughters his opponents, including peaceful protestors.

Several analytic models explore how domestic politics shape international crises. In this chapter, I will investigate several such models. I begin with various models that fall in the family of ideas that revolve around audience costs. I then move on to complementary perspectives that aid us in understanding why some crises become wars, why some do not, and why some prospective crises never happen in the first place. These include ideas about partisan political opposition in democracies that is absent in dictatorships, models of war choices under extreme conditions, and selectorate theory, which was introduced in [chapter 2](#). To set the stage for these models, it is useful to return to the Cuban missile crisis, which we met in the introduction.

AUDIENCE COSTS

I used the Cuban missile crisis in the introduction to illustrate how a group decision-making process could result in socially intransitive preferences even though each individual decision maker had clear, transitive preferences over the range of responses to the Soviet buildup of missiles on Cuba. Let's review a little bit more of the history of the crisis and see how the idea of audience costs, first introduced by James Fearon in 1994, might help explain why President John Kennedy took the world to the brink of nuclear war over Soviet missiles in Cuba and why the Soviet leadership may have backed down. In doing so, we will distinguish between the expected development of the crisis if there were no audience costs—that is, if there were no domestic political consequences for inaction—and then we will repeat the exercise with audience costs weighing in to help shape prospective war and peace choices.

Graham Allison and Philip Zelikow's 1999 edition of the book, *The Essence of Decision*, gives a detailed account of alternative views of the Cuban missile crisis. Although I depart from their analysis, I urge you to have a look at their book to come to a deeper understanding of this critical Cold War event. It will help you see how different perspectives can lead to radically different explanations of events, and it will, in that way, highlight the emphasis in [chapter 1](#) of this volume on the importance of systematic evidence to get a better sense of which explanations really work and which do not or work only in very limited circumstances.

We begin early in President Kennedy's term. Shortly after he took office in 1961, he carried out, in significantly modified form, an effort to overthrow Cuba's then newly ensconced Fidel Castro regime. The planning for the invasion, which came to be known as the Bay of Pigs because of where it took place, had been done during Dwight Eisenhower's presidency. Kennedy, not prepared to scuttle the plan, backed the invasion but withheld American air cover, which had been promised to the Cuban ex-patriots who led the landing on Cuba. The belief was that there would be a mass uprising of the Cuban people in support of the invaders. This, however, did not happen, and the invasion was a total failure with the invaders killed or captured and imprisoned. This and President Kennedy's weak performance at a summit meeting with Nikita Khrushchev, leader of the Soviet Union at the time, convinced the Soviet leadership both that Kennedy could be pushed around and that they could take action they had promised publicly not to take—namely, placing offensive, nuclear missiles on Cuba, a mere ninety miles from Florida.

In September 1962, the Soviets began putting nuclear-armed missiles on Cuba. The buildup of an offensive capability was discovered on October 14 by American U-2 spy planes flying over Cuba. On October 22, Kennedy gave a critical speech to the nation in which he bluntly stated the following:

The size of this undertaking makes clear that it has been planned for some months. Yet, only last month, after I had made clear the distinction between any introduction of ground-to-ground missiles and the existence of defensive antiaircraft missiles, the Soviet Government publicly stated on September 11 that, and I quote, "the armaments and military equipment sent to Cuba are designed exclusively for defensive purposes," that there is, and I quote the Soviet Government, "there is no need for the Soviet Government to

shift its weapons for a retaliatory blow to any other country, for instance Cuba,” and that, and I quote their government, “the Soviet Union has so powerful rockets to carry these nuclear warheads that there is no need to search for sites for them beyond the boundaries of the Soviet Union.” That statement was false. (John F. Kennedy, *Cuban Missile Crisis Address to the Nation*, see www.americanrhetoric.com/speeches/jfkucubanmissilecrisis.html).

Kennedy’s speech made a public demand that the Soviets withdraw their forces and weapons from Cuba, and he announced a naval quarantine of Cuba to prevent any further buildup. The next day, Khrushchev put Soviet forces on alert and threatened to sink US ships if they tried to stop Soviet ships from reaching Cuba. With the world as close as it ever came to nuclear war, a temporary break in the tension arose on October 24 when Soviet ships stopped short of the quarantine line rather than confront the US Navy. As we now know, the Soviets had nuclear-armed submarines at hand in case of a confrontation. Khrushchev then sent a private letter to Kennedy saying that the Soviet Union’s need for weapons on Cuba would disappear if the US government pledged not to invade. This private note was followed on October 27 by a second, public demand that the United States remove its offensive missiles from Turkey. After careful deliberation with his advisers, President Kennedy chose to respond to Khrushchev’s first, private message by saying that the missiles on Cuba must immediately be made inoperable. Privately, the president’s brother (and his attorney general) Robert Kennedy indicated to the Soviet leadership that the United States would take missiles out of Turkey in the future. On October 28, Premier Khrushchev publicly announced that the USSR would withdraw its missiles from Cuba.

The sequence of events raises important questions. Among these is, why did the US government choose a naval blockade, an issue we already addressed in the introduction? But two other critical questions call out for answers: (1) Why did the Soviet government decide to place missiles on Cuba? (2) Why did they then back down and pull the missiles out? There are many answers to these questions. Indeed, answering them is the purpose of analyses, such as that by Allison and Zelikow (1999) and that of many other scholars as well. Here I want to focus on a specific means of addressing these questions that, at the same time, provides a way for us to think about the

general impact that domestic politics can have on even the highest-stakes international political issues such as were manifest in the Cuban missile crisis.

Although it is appealing to try to explain the crisis as a sudden existential threat to US national security, a national survival issue par excellence, we know that this is not really correct. Even in President Kennedy's speech on October 22, he noted, "American citizens have become adjusted to living daily on the bull's-eye of Soviet missiles located inside the USSR or in submarines. In that sense, missiles in Cuba add to an already clear and present danger...." The missiles on Cuba had not fundamentally altered the balance of power. They had shortened the time it would take for nuclear weapons to reach the United States, but given the technology of the day that change made little defensive difference. They did, however, have substantial domestic political ramifications. Robert Kennedy, in his book *Thirteen Days* ([1969] 1999), reports that the president was concerned that if he did not take strong action, as some advised, he would be impeached. Furthermore, he recognized and was concerned that midterm elections were only a few short weeks away. Kennedy's administration was divided over what to do. His CIA head, John McCone, wanted to escalate efforts against Cuba. McGeorge Bundy (the special assistant to the president for national security affairs) urged Kennedy to make a public statement about his intentions over Cuba. On September 4, before the crisis began to unfold, but after Soviet SAM missiles (defensive weapons) had been detected on Cuba, Kennedy publicly declared the following:

There is no evidence of any organized combat force in Cuba from any Soviet Bloc country; of military bases provided to Russia; of a violation of the 1934 treaty relating to Guantanamo [an American military based on Cuba]; of the presence of offensive ground-to-ground missiles; or of other significant offensive capability ... Were it otherwise the gravest issues would arise.

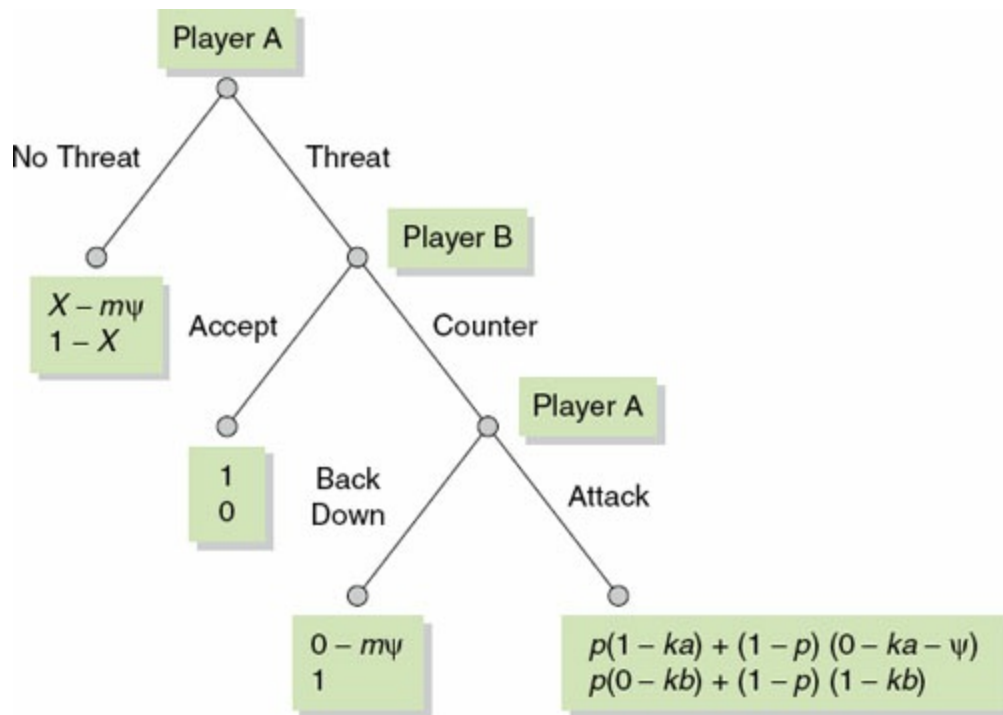
Here the president made clear that he would not tolerate offensive (nuclear) weapons on Cuba but that he viewed a defensive Soviet weapons buildup as acceptable (hence the phrase, "were it otherwise"). With repeated Soviet assurances, made in public, that they had no intention of putting nuclear weapons on Cuba, Kennedy repeated his message that defensive weapons are okay but nuclear weapons cannot be permitted. He probably

believed that such strong language about offensive weapons was politically safe since he had the assurance of the Soviet leadership that this was not an issue for them. Through strong language, Kennedy may have hoped to recoup some of his credibility as a foreign policy leader in the run up to the midterm election. As we will see, his public declarations for domestic political purposes locked Kennedy into an extremely risky course of action and perhaps also provided the credibility needed to convince Premier Khrushchev to back down.

The public declarations that Kennedy made are examples of what James Fearon (1994) calls audience costs. In the Cuban missile crisis context, what this means is that Kennedy had a domestic price to pay if he backed down after making public threats about an (unexpected) offensive weapons buildup on Cuba. He had staked his **reputation** on not allowing Soviet offensive missiles in Cuba. If he was not firm, the American electorate would, Kennedy believed, have lost confidence in his administration, leaving him extremely vulnerable both to domestic and foreign policy challenges. The president clearly believed that he would seriously damage fellow Democrats who were running for reelection in just three weeks and, as noted earlier, he is reported to have said, “I think I would have been impeached.”

To see how the audience costs argument works, let’s construct a simplified model that captures the essential, nuanced discoveries of the extensive audience costs literature (Fearon 1994; Smith 1996, 1998; Slantchev 2006; Ashworth and Ramsay 2011). The model, depicted in [figure 6.1](#), will be solved first without any audience costs. Then these costs will be added in to see how expectations about a domestic political audience’s reactions to war and peace decisions alter expected outcomes. As we will see, high audience costs make it hard for democratic leaders to back down after a severe public declaration such as Kennedy made. We will also see that the difficulty in backing down can make crises less likely to occur and can make nondemocratic adversaries more likely to back down themselves if they are threatened.

FIGURE 6.1 An Audience Costs Crisis Escalation Game



Let $0 \leq m \leq 1$: The variable m measures degree of domestic policy inadequacy (general risk of not being reselected) based on prior job performance.

ψ = cost to leader of being turned out of office: constituency/audience-imposed cost.

X = value of status quo to player A

p = probability A wins if A attacks B.

ka and kb are A's and B's expected costs from war.

Assumptions: Winning a war or making a successful threat ensures remaining in office. Losing a war ensures losing office. Backing down after threatening war or not threatening war implies that the loss of office is dependent on the degree the leader's record is considered inadequate (m).

The game in [figure 6.1](#) is designed to evaluate the sequence of choices that can lead a crisis to defuse, to escalate, to backing down by a threatening party despite its declaration of dire consequences if an adversary fails to change its behavior and, of course, the possibility that the implications of a threat's consequences are such that no crisis arises in the first place. In that sense, the game is a fundamental look at crisis management and escalation. The game provides the leaders in two countries, A and B, each with strategic choices they must evaluate. Remember from [chapter 4](#) that a strategy is a *complete* plan of action for every contingency that can arise in the strategic

environment encapsulated by the game. In this game, A's possible strategies are (1) threaten and attack; (2) threaten and back down (meaning the threat was a bluff); (3) not threaten and attack (this is a possible Nash equilibrium that involves a noncredible threat and so is eliminated by the rules for calculating a subgame perfect Nash equilibrium—that is, to assess whether A does not threaten we must also evaluate what A and B would do if A had threatened); and (4) not threaten and back down. For player B, the possible strategies are as follows: (1) counter A's demand or (2) accept A's demand. As we work through the game, we will want to be especially attentive to the value of two elements in A's payoffs, Ψ (the Greek letter psi) and m . Ψ measures the cost to a leader if s/he loses office. Ψ then measures the audience costs associated with the leader's choices in the game since loss of office is the cost the selectorate can impose on a leader who fails to deliver the benefits they seek. The variable m measures the general domestic dissatisfaction with everything else the incumbent leader has done, including all of her previous domestic and foreign policies. The larger m is, the less competent the incumbent leader is judged to be. Ψ and m , then, are both domestic features in the crisis decision-making game and so are not part of a realist perspective.

Solving without Audience Costs

I begin the analysis of the game using the assumptions of realists who do not place much stock in the role that domestic politics plays in high-stakes crisis behavior. To achieve that end, I set the variables m and Ψ to 0. That is, the first pass through this game treats the domestic policy performance of a leader as irrelevant ($m = 0$) and the cost to a leader for being turned out of office (Ψ) by domestic constituents to be 0 as well, meaning that domestic constituents have no such choice. Then we are looking at a strategic situation in which making a threat sets into motion a dispute in which the adversary may back down (accept) or resist demands by making a counterdemand. If the adversary resists demands, then the threat-initiator can choose to fight to back up its threat (attack) or it can back down, revealing that it was not sincere about its threat.

With Ψ and m set to 0, the game in [figure 6.1](#) essentially reduces to our already familiar problem: to fight or to cut a deal. Letting $\psi = 0$ —that is, no domestic risk of losing office—no audience costs, we see that backward

induction reveals that A will attack rather than back down if A has threatened and if $p > ka$. Of course, the greater p is, the more likely it is that $p > ka$ and, therefore, the more likely it is that A is prepared to attack if B makes a counterdemand rather than backing down. B can be expected to counter under two circumstances (1) if A is expected to back down; that is if B believes $p < ka$ or (2) if B believes A will attack but B believes that $1 - p > kb$; that is, B's expected chance of winning ($1 - p$) exceeds B's expected costs from a war (kb). Finally, A initiates a threat only if it believes that for B $1 - p < kb$; that is, B will not counter, or that for A $X + ka < p$; that is, the status quo (X) is sufficiently lousy for A that it is worth gambling on a war. In each instance, we see that the larger A's chance of victory (the bigger p is), the more likely it is that A makes a threat. So, as p , A's probability of defeating B, increases, A is more likely to threaten and more likely to fight if B makes a counter demand instead of backing down. This is another way of stating the conclusion reached by Henry Kissinger, quoted earlier, to the effect that "in the final reckoning weakness has invariably tempted aggression" (Kissinger 1979, 195). I questioned that conclusion earlier and now want to probe it by introducing audience costs into the threatening leader's calculations.

Solving with Audience Costs

Without audience costs, we have seen that the smaller A's probability of victory, the lower the probability of a threat or, if there is a threat, of an attack. Now we re-solve the game but this time allowing audience costs to be greater than 0. Doing the backward induction to find the subgame perfect Nash equilibrium, we discover that if A makes a threat and B counters, then A prefers to attack rather than back down provided the following:

$$p > \frac{ka + (1 - m)\psi}{1 + \psi}$$
; otherwise A chooses to back down. It is useful to realize that if $m = 0$ and $\psi = 0$, then this inequality reduces to $p > ka$ as in a realist, neorealist, or power transition view in which the state is a rational unitary actor. Not surprisingly, if B is expected to accept rather than counter, then A threatens, getting its best possible outcome (1). Naturally, if B is expected to counter and A knows that it would back down rather than attack B, then A does not threaten in the first place and so we do not observe a crisis; threats are placed off-the-

equilibrium-path in this case. But, if A believes that B will counter and A is prepared to fight rather than back down, then A threatens B provided that its policy status quo X meets the following condition: $X < (1 + \psi)p + \psi(m - 1) - ka$. If that ugly condition is not met, A does not threaten. What that ugly statement says is that if the status quo is sufficiently bad for the leader of A then it is worth the personal risks and costs of war to threaten and attack if necessary rather than continue to live with the status quo. Clearly the expression shows us that the larger Ψ , the cost of losing office, is, the stronger the incentive to carry out a threat by attacking (since $(1 + \Psi)p > p$ as long as $\Psi > 0$).

With that lengthy backward induction completed, we can now see the effect that audience costs can have. To do so we need to answer one critical question: How does A's threshold confidence in her chances of victory against B change in response to changes in her domestic audience costs? By ascertaining how the critical value of p varies with the value of ψ we can see whether higher audience costs increase or decrease the circumstances under which, having threatened B, A carries out her threat by attacking if necessary. Recall that to attack, having made a threat, A must believe that $p > \frac{ka + (1 - m)\psi}{1 + \psi}$. This expression defines the critical threshold that p must exceed in order for A to attack rather than back down. Solving for how this critical value of p changes with audience costs (ψ) we can discover the answer to our question. We find that the answer, as is so often the case in politics, is contingent on the specific circumstances in a very specific, identifiable way. We can solve for how the threshold value of p changes as Ψ increases by using calculus to calculate the partial derivate of p with respect to Ψ .³ That tells us, holding everything else constant, how increased audience costs changes the size of the fraction that p must be larger than in order to attack rather than back down. Although the partial derivative is reported in a footnote for those who are interested, it will be easier to see the effects by constructing numerical examples. What we will discover is that if m is sufficiently large, then the leader of A is prepared to attack even with a small chance of winning as this is its best shot at salvaging his or her reelection prospects. If A is fortunate enough to win, its leader avoids the costs of backing down (which are dependent on past policy incompetence) and A's

leader avoids the audience costs that are imposed when it raises expectations and then retreats from them by backing down. We will see later that the logic here also reflects what Downs and Rocke (1995) called the **resurrection hypothesis** and also captures many ideas behind the notion of diversionary war theory in which crises are created to deflect attention away from a leader's earlier failures. But I am getting ahead of myself, and this is all pretty complicated so let's look at a couple of numeric examples.

Let's suppose that A's expected cost from a fight with B, ka , equals 0.3 and let's suppose the leader of A has a poor record based on his earlier policies, so $m = 0.8$. Let's first suppose that the audience cost (ψ) is 0, and then let's assume that it is 1. Then we can compare the minimum value of p

that is required for A to attack, meaning that $p > \frac{ka + (1-m)\psi}{1+\psi}$ when the audience cost is 0 and when it is 1 to determine the impact that audience costs can have on the likelihood of war. When $\psi = 0$ and $m = 0.8$, for A to attack B, p must be greater than 0.3. For A to attack B when $\psi = 1$ and $m = 0.8$, p must be greater than only 0.25 ($[0.3 + (1-0.8)1]/2$). With domestic audience costs, the leader of A is more prepared to attack B with a lower probability of winning than is true if there are no audience costs provided the leader's prior record is not good. Conversely, if m is small, say 0.3, reflecting reasonably good past policy performance and if audience costs are equal to 1, then $p > (0.3 + (1 - 0.3))/2 = 0.50$. So good prior policy performance can offset the incentive to attack even when audience costs are high but encourage attack when prior performance is poor. In the case of poor prior performance (m is large), a leader finds it worthwhile to gamble on fighting even with relatively poor odds to salvage her political survival prospects. With prior good performance and so a relatively small threat to political survival, audience costs would have to be very much larger before an incumbent would gamble on poor odds of military success.

Recall President Kennedy's situation. He feared that if he did nothing to counter the Soviet offensive arms buildup on Cuba he would be impeached and the Democratic Party would be hurt in the midterm election. That is, he believed that ψ was large. Recall also that his earlier foreign policy experiences—the failed Bay of Pigs invasion and a humiliating summit meeting with Nikita Khrushchev in Vienna—also meant that m was large. Thus, Kennedy faced a situation in which, according to the game in [figure 6.1](#) and apparently in reality too, he was locked into extremely risky action

against the Soviet Union in an effort to salvage his domestic political situation. He was willing to gamble on a nuclear war. He said the following in his October 22 speech to the nation:

We will not prematurely or unnecessarily risk the costs of worldwide nuclear war in which even the fruits of victory would be ashes in our mouth-*but neither will we shrink from that risk at any time it must be faced.* [emphasis added]

What we can see is that for a leader who faces large domestic audience costs, as Kennedy did, it is hard to back down once a threat is made. This is the case when A's policy competence (m) is already in serious doubt as was true for Kennedy. We have also seen that as leader competence becomes more questionable, the probability that the leader will make a threat decreases. In Kennedy's case, he seemed to have believed the Soviet Union's earlier assurances that they would not introduce offensive weapons into Cuba and so he probably felt safe in making a threat that he did not expect to have to enforce. That is equivalent to saying that Kennedy was overconfident about Soviet assurances. If we add uncertainty into the mix, a leader like Kennedy might threaten as a bluff not expecting the bluff to be called. Then, being caught up in what was intended as a bluff, the leader subject to heavy audience costs feels pressure to carry out its threat rather than back down.

Audience costs have other effects. They encourage rivals to take threats of "dire consequences" more seriously when the rival knows (or believes) that the threatener faces stiff audience costs. If, as seems likely, democratic leaders are more subject to audience costs than autocrats, then threats from democrats are likely to be taken more seriously than threats coming from less accountable governments, especially if the incumbent is already in political trouble. That, after all, is an important consequence of reelection pressures. Audience costs, then, can help avoid the need to fight because they signal rivals that there is a good chance they will face the costs of war if they do not back down. Of course, they calculate whether those costs are worth it or not. They learn from audience costs two important things, each pulling in opposite directions with regard to settling disputes. They learn that democrats are less likely to make idle threats, and they learn that democrats might attack even when their chances of victory are low, meaning the autocrat's chances of victory are high. Whether that is an empirically accurate view is an important question. It is also a difficult question to test. As Schultz (2001)

has noted, audience costs lead to interesting selection effects in terms of what we actually get to observe in the world.

Threats from democrats should increase the likelihood that rivals back down. If the rival is not expected to back down, then democrats who are reluctant to escalate or who anticipate high audience costs after previously doing a good job on policy, should negotiate rather than make threats to begin with. But if a threat is made when the adversary was mistakenly expected to back down, democrats should be more likely to carry out their threats than are autocrats because of the audience cost of failing to follow through. Finally, if the audience costs will compel a leader who has made a threat to follow through and if that leader's chances of victory are sufficiently low, then we should expect that no threat will have been made in the first place. We must remember that the cases of threats by democracies, given the audience cost view, are not a random sample of opportunities to threaten. The threats have been made after factoring in the risks of defeat and the costs in domestic political support. Two sets of risks and costs are taken into account: (1) the risk and cost of defeat by the foreign rival and (2) the risk and cost of defeat by domestic rivals.

Crisis Selection in Democracies and Autocracies

Schultz's (1998, 2001) assessment of the selection effects associated with audience costs helps us improve our understanding by pushing the crisis initiation process back a step and adding still more richness to the domestic political setting. In his analysis, he assumes that there are two domestic players in one state, namely the incumbent government and a legitimate opposition, as well as a foreign rival. A legitimate domestic political opposition is a characteristic inherent in democracy, as well as in Schultz's model and in selectorate theory (Bueno de Mesquita et al. 1999, 2003). It is absent from audience-costs models. The presence of a legitimate domestic political opposition significantly constrains the foreign policy adventurism of democratic leaders in ways not experienced by nondemocrats. In Schultz's formulation, because the opposition party is interested in gaining electoral advantage, it opposes foreign policies the incumbent proposes if the opposition deems the policy likely to fail. Doing so, after all, then provides the voters with a clear alternative, distinguishing the opposition party from the incumbent's party based on the expected failings of the incumbent's

foreign adventurism. The opposition party does not oppose the incumbent's proposed policy if it thinks that policy will succeed. After all, if the policy is likely to succeed, those politicians who backed it are likely to be favored by voters and those who opposed it are not. So, when the policy is thought to have a good chance of success, the democratic opposition backs it to minimize the electoral advantage gained by the incumbent's party. This view helps us understand, for instance, the broad-based congressional support for President Lyndon Johnson's expansion of Kennedy's Vietnam policy into a full-fledged war or Congress's support for George W. Bush's 2003 war against Iraq. It also explains the defection of the loyal opposition (in and out of Congress) once these wars became unpopular or the post-war rebuilding policies looked like they were failing.

When the opposition supports the incumbent's foreign policy, this support credibly conveys "high resolve" to the foreign opponent. This has two effects: (1) it encourages the democratic incumbent to press ahead with his foreign policy and (2) it discourages the rival from believing that internal dissension in the democracy will weaken the democratic leader's resolve to fight. If, however, the opposition is expected (or seen) to resist the proposed foreign policy, then the incumbent, equally concerned about the policy's potential impact on reelection, is more likely to abandon the policy or not propose it in the first place, inferring that it is too risky to warrant further action. Opposition resistance in the deliberative give-and-take of democratic politics provides an electoral incentive for incumbent democratic leaders to be careful to avoid disputes that might necessitate backing down. This places such prospective disputes off the equilibrium path from the outset so that, barring error, we do not observe them. That is, these are the disputes that don't happen, much like Sherlock Holmes's dog that didn't bark. Foreign policy, in this account, appears nonpartisan because only those policies that are expected to succeed get implemented.

Journalists often speak of partisanship ending at the water's edge, meaning that all parties pull together in a democracy when the country goes to war or otherwise faces a serious international crisis. The idea that partisanship ends at the water's edge is put in a different light by Schultz's results. So too does his reasoning quash any empirical notion that the disputes and audience costs we actually observe are drawn from an unbiased sample. When, as is usually the case according to Schultz's reasoning, democratic foreign policy adventures are likely to succeed, we don't see much internal

dissent. If the policy turns sour, as sometimes occurs, then we can expect to see a flurry of journalistic and loyal opposition dissent and that is just what happens. Everyone wants to be on the winning side and, indeed, democracies usually are. We know from careful research into the question that democracies win over 90 percent of the wars they initiate (Reiter and Stam 2002), although this finding has not gone without (in my view, a less persuasive) challenge (Downes 2009).

The audience-costs literature offers an explanation for differences in the crisis behavior of autocrats and democrats. It helps us understand selection effects that shape what we actually observe in the international arena. Other theories with a focus on domestic politics and international conflict also contribute significantly to the debate on the causes of war. We examine several such theories in the pages that follow, ending with selectorate theory.

DIVERSIONARY WAR

The audience costs literature has evolved as researchers zoomed in on the elements of the theory that seemed most convincing and other elements that seemed to require change or elaboration. For example, in Fearon's model, audience costs are exogenous and accumulate as long as a dispute continues without giving the "audience" the opportunity to reassess and decide that backing down may be better than attacking. Smith (1996, 1998) addressed this deficiency by devising a model in which audience costs are an endogenous, strategic element of the political environment. His model shows how foreign policy choices, particularly diversionary war choices, on which I now want to focus, might be shaped by the competence of leaders and their efforts to prevent domestic constituents from turning them out of office, much as in the game in [figure 6.1](#). Whereas Fearon's model draws attention to the problem an incumbent faces in making and then not carrying out a threat, Smith's model zooms in on a leader's private information specifically about his competence (i.e., adverse selection) and the foreign policy actions he chooses to persuade constituents that he is more capable than they otherwise believe. In Smith's model, leaders can use their private information to manipulate policy, choosing, for instance, diversionary war tactics designed to draw attention away from their previous policy failures (the variable m in the game in [figure 6.1](#)). Other models, such as those by Slantchev (2006) and Ashworth and Ramsay (2011) further develop these

themes.

Ashworth and Ramsay (2011), for instance, draw attention to a moral hazard problem faced by leaders. Leaders sometimes must choose between doing what is best for them and doing what is best for their society (the state). Leader self-interest can push them to make choices that are not really good for the society they lead. In the Ashworth-Ramsay model, for instance, leaders have private information about their nation's prospects in war (p in [figure 6.1](#)). That information can be used to extract a substantial concession from the foreign rival who wishes to avoid the costs of war (kb). But the fact that the initiation of conflict could extract a significant concession to appease the initiator means that the prospective initiator also has incentives to create a crisis when her private information does not support a strong expectation of victory. Citizens, of course, may have an interest in gaining the concessions, but they also have an interest in limiting the risk and cost of an unsuccessful war. Citizens can impose costs on their leaders to limit the risk that their leader will pursue an unsuccessful policy in the hope of extracting a big concession. Finding the right level of costs is, however, a tricky matter. The citizens don't want to stifle strategic threats so much that they cannot get desirable concessions from rivals and they don't want to stifle threats too little either. Ashworth and Ramsay report that under optimal conditions, citizens always punish leaders if they initiate a crisis and then back down. Whether leaders are punished if they back down rather than going to war, however, depends on the value of the status quo and on the costs of war, much as we saw in the game in [figure 6.1](#). Leaders must calculate carefully when they can use foreign threats to extract gains even though they have a poor chance of winning if it comes to a fight and when they are better off avoiding a dispute in the first place. Part of the answer to that question resides in the trade-off between domestic policy failures and opportunities to pick fights that are likely to produce international success. That is the problem of diversionary warfare.

For many decades, there has been speculation that foreign adventures are sometimes used to divert attention from failed domestic policies. Some studies indirectly bolstered this view by modeling or analyzing differences in war timing within democracies in relation to their electoral cycles. Gaubatz (1991), Fordham (1998), and Smith (2004), for example, show that war timing by democratic leaders is strongly influenced by where they are in their election cycle, their reelection prospects, and the electoral rules under which

they operate. More recently, Conconi, Sahuguet, and Zanardi (2010) show that democratic term limits lift some of the constraints on war fighting that otherwise characterize reelection-motivated choices in democracies. In essence, a term-limited leader is no longer subject to pressure from his constituents to follow their policy interests and so is freer to take risky action if he wants to, an argument also made in selectorate theory (Bueno de Mesquita et al. 2003, [chapter 7](#)). These studies provide a new perspective on the links between foreign policy adventures and rally-round-the-flag effects (Mueller 1973, Brody 1992) that may, under the right conditions, bolster reelection prospects.

In one of the first diversionary war studies to rely on both theory and evidence, Morrow (1991b) explored why earlier empirical work found mixed results for the diversionary war hypothesis. He noted that one could not adequately understand diversionary incentives without also considering the domestic political gains a leader might get from negotiating a resolution to difficult international issues. In this way, he foreshadowed the later development of the audience costs perspective. Morrow focused on arms control negotiations between the United States and the Soviet Union, demonstrating that when the US economy faced high inflation or high unemployment (i.e., m is large in [figure 6.1](#)), the president was prepared to grant greater concessions to the powerful Soviet Union in arms control talks to offset his domestic economic shortcomings and to improve the odds of a negotiated resolution of important, contentious foreign policy issues. The Soviets, as we should expect, recognized the domestic political pressure the president faced and so demanded more. Fordham (2005), looking at a related argument, showed that the US likely targets of diversionary force behaved more cooperatively when the US economy was not doing well. In Fordham's analysis, unlike Morrow's, the likely targets were relatively weak and, therefore, expected to fare poorly in a dispute with the powerful United States. They preferred to settle rather than confront the United States and so they agreed to give the US president a political success while averting potentially heavy costs to themselves.

As in the game in [figure 6.1](#), Hess and Orphanides (1995) and Smith (1996) argued that domestic policy failings do not inherently also signal leader incompetence in the foreign policy arena. In their views, leaders could use success in foreign disputes to signal their competence and thereby stay in office; thus, the need to signal competence to voters creates an incentive for

diversionary threats and even war. Tarar (2006), building on earlier work, offers a still more nuanced model that helps explain the concessionary patterns observed by Morrow (1991b) and Fordham (2005), as well as the findings reported by Hess and Orphanides (1995, 2001). Tarar focuses on what makes a diversionary threat into a meaningful signal of leader competence. He argues that the rival must be sufficiently strong that the conflict actually tests competence, and the leader must place a sufficiently high value on retaining office. Tarar's model helps make sense of seemingly competing empirical patterns. We learn from his model why strained domestic circumstances can lead to greater policy concessions by the economically stressed leader, can sometimes result in appeasement by weak prospective targets and can result in war with strong targets depending on how much the party making the threat values holding onto office. Each of these patterns, and the unfolding of conflicts they imply, depends crucially on variations in domestic political circumstances—on states not being unitary actors. Closely related to this research is another body of analysis that draws our attention to the seemingly suicidal actions sometimes chosen by leaders whose political survival is at risk.

The Resurrection Hypothesis

George W. Downs and David M. Roake (1995) developed what they call the resurrection hypothesis. This hypothesis begins with the now familiar premise that leaders want to keep their jobs. Downs and Roake show that when leaders face a military defeat and anticipate being ousted as a result, they have a strong incentive to fight on in the hope that good fortune will turn events in their favor; that is, their only hope of political resurrection is to fight on despite great military disadvantage. In essence, the resurrection hypothesis says that the extreme efforts of apparently defeated leaders do not reflect a loss of rationality under extreme stress, which has been the more common explanation of such efforts (Gurr 1970). To the contrary, extreme efforts in the face of defeat are actually a rational response. Such leaders lose nothing by fighting on and stand to gain much if luck should turn their way.

For example, Adolf Hitler launched the Battle of the Bulge after the rapid advance of the Allied armies toward Germany following the invasion of Normandy in June 1944. Hitler's action appears to have been an instance of the resurrection hypothesis at work. The Battle of the Bulge was a desperate

attempt to save Germany, and Hitler's thousand-year Reich, from an Allied invasion. Although Germany lost the battle, the Germans were able to mount a much tougher campaign than the Allies believed was still possible.

The Tet offensive undertaken by the North Vietnamese on January 31, 1968, is another example of the resurrection hypothesis put into practice. US military and political leaders believed that they had already punished the North Vietnamese regime to such an extent that it was no longer capable of launching a military offensive. Likewise, the American public had become convinced that the war in Vietnam was virtually won. And, in fact, the Tet offensive was a considerable military rout—of the North Vietnamese by the Americans. But just by the very fact that they were able to launch the offensive at all, the North Vietnamese pulled off a stunning political and propaganda victory that resurrected their hopes and led, ultimately, to a negotiated resolution of the Vietnam War that was very favorable to the North Vietnamese side.

The resurrection hypothesis provides an important lesson about foreign policy. During wartime, and during the diplomatic negotiations preceding a war, leaders commonly demonize their foes. George H. W. Bush, for example, referred to Saddam Hussein of Iraq in 1990 and 1991 as another Hitler, thereby casting Hussein in the eyes of the American public as a major menace to world peace. Bush may have been right about Hussein. Whether he was right or not, demonizing him may have actually had the effect of making Hussein even more dangerous to his own people, if not to the United States, than he already was. By demonizing Hussein, US rhetoric may unintentionally have helped ensure his political survival for another twelve years before he was ousted in the 2003 US-Iraq war. If Hussein believed, rightly or wrongly, that the United States was committed to marching into Baghdad and overthrowing him—a threat resurrected in 2002 and carried out in 2003 by George W. Bush—then this might have encouraged Hussein to take great risks to resurrect his political fortunes.



Jubilant, liberated Iraqis tear down a statue of the overthrown dictator Saddam Hussein. It took only a short time for this jubilation to turn into postwar sectarian fighting and anti-American sentiment.

What were those risks? In the run-up to the 2003 war between the United States and Iraq, the United Nations made repeated efforts to inspect Iraqi sites that were thought possibly to be storage facilities or manufacturing facilities for weapons of mass destruction, including chemical, biological, and possibly even radiological weapons. Today we are confident that Saddam Hussein did not possess such weapons, but in 2003 many believed that he did. He helped reinforce that belief by first resisting and then obstructing UN inspections. Many reasoned that if he did not have these weapons he had no reason to impede the UN inspection effort. But if he did have weapons of mass destruction, in contravention to the terms that ended the 1991 Gulf War, then

he surely had an incentive to hide the fact by making inspections difficult. There was, however, a third possibility: Hussein did not have such weapons, but he believed that acting as if he did by obstructing inspections might diminish the chances that the United States would invade Iraq. That is, he had an incentive to bluff. His reasoning could have been that by seeming to have such weapons he could raise the specter of tens of thousands of American casualties, with that fear being sufficient to deter the United States from invading. He might have hoped, in the terms of Schultz's model, to convince the loyal opposition in the United States to oppose going to war against Iraq given the high expected costs. If that was his thinking, it was a significant calculated risk. It didn't work out as Hussein presumably hoped, but that, after all, is the nature of calculated risks. Sometimes they succeed—like the Tet offensive—and sometimes they fail—like the Battle of the Bulge.

Saddam Hussein may have decreased the odds of an invasion—indeed, the United Nations did not go along with the US decision to use force and neither did many US allies—by raising the specter of an unconventional war. In the process, he increased the prospect that he would be deposed if the United States attacked while he simultaneously maneuvered to reduce the probability of such an attack. In 1991 during the first Iraq War, he signaled that he might use chemical or biological weapons against Israel, and according to the insightful account provided by Avigdor Haselkorn (1999), he succeeded in deterring the coalition forces from marching into Baghdad. In 2003, he seems to have tried a similar gambit, but this time he failed and was deposed.⁴

TRY THIS

Calculate how George W. Bush's confidence that Saddam Hussein had weapons of mass destruction might have changed because Saddam did not allow unfettered inspections. Apply this same reasoning, and Bayes' rule (see the note on Bayes' rule), to work out why Iran might limit UN inspections of its nuclear sites or why North Korea might doubt US sincerity when it says it has no intention of imposing regime change in that country. Bayes' rule is a powerful tool to help us learn about foes and solve strategic problems in situations in which we are uncertain of our rival's true intentions.

By demonizing Saddam Hussein, both George H. W. Bush and later George W. Bush gave up the possibility of successfully negotiating an agreement for Hussein to go into exile. Surely, he could no longer believe that the United States would honor a commitment to leave him alone once he was out of Iraq and no longer had a viable military threat. Pushing leaders to the point where they need to gamble on resurrecting themselves, leaving them no graceful way out of a dispute, increases the risk of carnage and the prospects of watching such leaders snatch victory from the jaws of defeat. The resurrection hypothesis highlights a difficult political trade-off. When a country demonizes an adversary, this helps mobilize domestic political support for the use of force, thereby increasing the chances of victory against the adversary. But demonizing an enemy also motivates that adversary to try harder to win, raising the risk of increased loss of life. The tactic also makes it harder for the country to sell at home the idea of negotiating with the “evil” foe.

Pacific Dove Hypothesis

There is a hypothesis, known as the **pacific dove hypothesis** (Bueno de Mesquita and Lalman 1992) that is closely associated with the logic of the resurrection hypothesis. While the resurrection hypothesis draws our attention to factors influencing last-ditch efforts to snatch victory from the jaws of defeat, the pacific dove hypothesis emphasizes reasons why very weak actors, whether states or terrorists, might initiate military action in the first place. In that sense, it foreshadowed some of the key ideas in the audience costs research program.

Let’s define a dove as someone who prefers to resolve disputes through negotiation rather than trying to coerce or bully an adversary into surrendering to any demands. A hawk, then, is someone with the opposite preference. Hawks prefer to get what they want through coercion rather than make concessions. I define a pacific actor as anyone who, if attacked, prefers to surrender, backing down rather than fighting back. An aggressor, then, has the opposite preference, preferring to fight back if attacked rather than back down. The pacific dove hypothesis argues that under certain specific, identifiable circumstances a weak state—or terrorist group—has incentives to initiate a war or other violent dispute against a stronger state especially if the weak initiator is a pacific dove (Bueno de Mesquita and Lalman 1992). As in

the resurrection hypothesis, such a circumstance arises when conditions become so extreme as to compel a state or leader, in desperation, to act in an unexpected, some would even say seemingly irrational, manner. As we will see, the behavior may be counterintuitive, but it certainly is rational.

By our definitions, a pacific dove not only prefers to negotiate a compromise resolution of differences rather than force its opponents to capitulate to it but it also prefers to capitulate if attacked rather than retaliate. If a state—or nonstate actor such as a terrorist group—is a pacific dove and if it is uncertain of its foe's type (dove or hawk, pacific or aggressor), then the weaker the pacific dove is relative to its opponent, the higher the probability that it will launch an attack in an effort to extract a surrender from that opponent.

The logic undergirding this seemingly counterintuitive claim is developed in a model known as the international interaction game. In that game, when a dispute arises between a weak actor and a strong adversary, the strong adversary's advantage in negotiations is proportional to its relative strength. This is consistent with, for example, Nash's theory of bargaining or the conventional notion that power gives a negotiator bargaining leverage. The weaker a state is relative to its opponent, the less attractive negotiations are because the weaker state does not bring much leverage in the form of power to the negotiating table. Still, a pacific dove prefers to negotiate rather than force the rival to capitulate, even if that rival is itself willing to give in. The trouble is if the initiator in any dispute tries to negotiate in the international interaction game it might succeed but there is also a danger of being attacked by the foe if that foe turns out to be a hawk. The international interaction game assumes that there is a first-strike advantage, which might be small or large, and that this first-strike advantage can create a commitment problem that makes efforts to negotiate risky.

Consider the thought processes of a weak pacific dove if it is uncertain about its opponent on two critical dimensions. A weak pacific dove may be uncertain whether its opponent is a hawk or a dove and it may also be uncertain whether the opponent is the pacific type or the aggressor type. If the rival is pacific, then it judges the issue in dispute as not worth the costs of a fight. The weak pacific dove simply does not know what will happen to it if it cedes the prospective first-strike advantage to its rival. It might choose not to attack in the hope that its foe will also do nothing and allow the status quo to persist. Perhaps there will be a negotiated settlement with the foe or

perhaps the weak pacific dove will be forced to cave in following an attack if its adversary is a hawk. As it turns out, these are all fairly poor choices from the weak pacific dove's perspective. Negotiations do not look that attractive to the weak pacific dove because its weakness means it lacks leverage; in diplomatic parlance, it lacks bargaining chips. Giving up the first-strike advantage and facing the danger of being forced to cave in looks bad too. For the weak pacific dove the best prospect, although not a good prospect, is to attack and hope that its stronger rival is not motivated to fight back. This is the only way that a weak pacific dove can derive benefits from the situation.

A numeric example may help make the intuition behind this claim clear. Let me stipulate the payoffs for A in a crisis game in which A can offer to negotiate with B or A can attack B. If A attacks B, then B can retaliate, resulting in a war started by A, or B can back down and surrender, giving A whatever A demanded while also suffering the costs of A's attack. If A offers to negotiate in search of a compromise agreement, B may reciprocate by negotiating or B might seize its first-strike advantage and attack A. If B attacks, A could retaliate (yielding a war started by B) or A could back down, capitulating to B's demands while also suffering the costs of B's attack. Consistent with the idea of A's being a dove, let A's payoff for negotiation equal 5 and A's payoff if B backs down equal 4. In addition, let A's payoff for starting a war against B equal 3, backing down to B equal 2, and retaliating if B attacks A equal 1. Because A prefers to back down rather than retaliate if attacked (2 is better than 1), A is pacific as well as being a dove. Suppose A is uncertain of B's preferences. Let Q equal the probability with which A believes B is a dove (i.e., that B prefers negotiation to forcing A to capitulate) so that $1 - Q$ is the probability that, if A offers to negotiate, B will attack, forcing A to back down. To keep the example relatively simple, assume that A—which prefers to negotiate rather than forcing B to capitulate (5 is better than 4)—is certain B will back down if attacked. Then A will attack B if the expected utility from offering to negotiate is smaller than the expected utility from attacking. In this case, that means that $5Q + (2 \times (1 - Q)) < 3$. Solving for Q we discover that pacific dove A will attack B if $Q < 1/3$ and it will offer to negotiate if $Q > 1/3$.

Now suppose some other actor (state, terrorist group, leader) A' is in the same situation but is considerably more powerful than A, so that A' expects to gain 20 from negotiation, whereas the weaker player A expected only 5. Because A' is also certain that B will capitulate if attacked (a condition not

required for the generalization about pacific doves but that is convenient to keep the example simple) nothing else of relevance changes when A' calculates its expected utility for negotiating versus attacking B . A' attacks B if $20Q + (2 \times (1 - Q)) < 3$. That is, A' attacks if $Q < 1/18$ and offers to negotiate if $Q > 1/18$. In plain English, A is weaker than A' . As a result, A expects fewer benefits from a negotiated settlement than does A' . Therefore, A attacks under more circumstances than does A' . If A' believes that there is only a one-eighteenth chance that B is a dove, that is sufficient for it to gamble on negotiation, but A must be more confident that B is a dove to undertake the gamble. Weak A attacks unless there is at least a one-third chance that B is a dove and thus will, by definition, negotiate rather than attack A .

Bueno de Mesquita and Lalman (1992) tested the pacific dove hypothesis on all European disputes across almost 200 years of history. Although there are just forty instances of pacific doves in that analysis, they found that they behaved as predicted. The statistical relationship between the probability of victory, estimated as the initiator's capabilities divided by the sum of capabilities of the initiator and the target and the likelihood that a pacific dove will initiate violence proved highly significant. There is a greater probability that pacific doves will attack when their probability of victory is low (i.e., they are weak). For initiators of violent disputes that were not pacific doves, the far more common circumstance—a higher probability of victory—was associated with the initiation of violence. The difference is stark. This result, like the resurrection hypothesis, the audience cost hypothesis and so many others, illustrates the importance of identifying the contingent conditions under which one or another relationship is expected to hold. Although the standard view that more powerful states are also more violent states is often true, it is not always true. For pacific doves, grabbing the initiative and engaging in violence helps make their demands more credible in a negotiation, but it also makes getting negotiations under way more difficult.

That pacific doves are more likely to engage in violence when they are weak rather than strong raises difficult questions about conflict resolution. Terrorist organizations, for example, typically are small and weak compared with the military might of their enemies. We observe terrorists as terrorists only when they engage in violent action. In such circumstances, we cannot tell them apart from hawks. Both hawks and weak pacific doves (but not

powerful pacific doves) behave in the same way when they are sufficiently uncertain of the response they can expect if they pursue peaceful solutions to their disputes. A fundamental problem in crises is that it is dangerous for weak parties to gamble on trying to negotiate if the foe is a hawk that will seize the initiative and try to destroy them. Gambling on negotiation can be fatal (a point highlighted in [chapter 13](#) on terrorism), yet failing to gamble on negotiation can mean giving up the opportunity for a peaceful and successful end to a dispute. In thinking about conflict resolution, we must always be careful not to underestimate the risks associated both with aggression and with gambling on peace. Either can be deadly.

SELECTORATE THEORY AND THE CONDUCT OF WAR

Every argument we have examined in this chapter thus far reminds us that specific details about a government's type (high audience costs or low; pacific or aggressive, dove or hawk; loyal opposition or not) influence how it conducts itself during disputes. The selectorate theory, introduced in [chapter 2](#), further reinforces this understanding. Recall that the theory indicates that when leaders depend on a small coalition to keep them in power it is efficient for them to rely on private benefits to the few to keep their loyalty. As the coalition of support required to retain power gets larger, leaders are compelled by their desire to survive in office to increase the quantity of public goods they provide to benefit everyone and to decrease the proportion of revenue spent on private rewards for their backers. This is a simple matter of costs and benefits. As the coalition increases in size, the cost of private goods to so many people goes up while public goods, by their nature, are not sensitive to how many people consume them. This and other inferences from the selectorate perspective helps inform our understanding of war and peace decision making, differences in how regime-types fight wars and differences in how regimes enforce the peace following a victorious war. We examine the selectorate view of war choices and war fighting strategies here and preservation of the post-war results in [chapter 14](#) where we explore this and other issues related to democracy and world order.

If the selectorate account is correct, then leaders must behave quite differently to ensure their political survival depending on how big or small

their winning coalition is. This will naturally influence decisions about domestic and foreign policies. Autocrats—those who depend on a small coalition—need money to reward their cronies and retain their loyalty. Democrats need to choose public policies, including foreign policies that satisfy their large winning coalition. [Chapter 12](#) looks at those policy needs in the context of foreign aid spending; here we look at those needs in the context of war. What then might be a reason to go to war?

Selectorate Reasons for War

Democrats, according to large-coalition logic, fight wars to gain policy concessions. That means that for democrats wars are directly or indirectly about policy issues. Either they fight to extract concessions or to impose regime change in order to put in power someone who will grant the desired policy concessions. For instance, the US government fought Saddam Hussein's regime in 1991 to force Iraq to withdraw from Kuwait and return Kuwait's oil fields to that country's government. In 2003, the US government fought again against Saddam Hussein's government—this time to overthrow his regime and put a government in place that was expected to be friendlier to US policy demands.

For autocrats, war is more often about bounty hunting than is true for democrats. Small-coalition leaders look for valuable territory to acquire or treasure that they can capture for their own domestic use. Hitler's Germany, for example, used conquest to secure slave labor and natural resources that were used to advance Hitler's territorial ambitions: to gain lebensraum (living space). Saddam Hussein invaded Iraq to assert his claim over disputed territory that happened to provide access to significant oil reserves. Naturally, not all autocratic wars are fought for these purposes and neither are all democratic wars directly or indirectly fought over policy differences. Rather, these are important tendencies shaped by regime type and especially by the size of the regime's winning coalition.

[Table 6.1](#) shows the strength of this pattern across all countries and years for which the data are available.⁵ We can see that 82 percent of the disputes initiated by large-coalition regimes—democracies—were over policy questions or regime change. Small-coalition regimes, in contrast, engaged in similar disputes only about 60 percent of the time. They sought territorial gains 40 percent of the time; democrats only sought them 18 percent of the

time, and even then, some territorial fights are over securing national borders to make the citizenry secure while others are to acquire riches. Unfortunately, the extant data do not allow us to distinguish between these conditions. It is striking to realize that the difference in the distribution of reasons for disputes across regime types is so vast that it would happen statistically by chance much less than one time out of ten thousand samples.

TABLE 6.1 **Why Fight: Domestic Institutions and the Reasons for Conflict**

Regime Type of Initiator → Initiator's Purpose in the Dispute	Autocracy (Coalition Size < 100)	Democracy (Coalition Size = 100)
Public Goods (Policy, Regime Change)	199 (59%)	71 (82%)
Private Goods (Territory)	140 (41%)	16 (18%)

Source: Based on the dyadic Militarized Interstate dispute data version 3.1, Bueno de Mesquita and Smith's estimation of coalition size, and Bueno de Mesquita et al. 2003.

Note: $X^2 = 15.65$ probability of occurring by chance < .0001. Coalition size is measured as defined by Bueno de Mesquita et al. (2003).

We see that the reasons behind militarized disputes, both those that become wars and those that fall short of open warfare, are different depending on the accountability of the regime to a larger or smaller audience. Audience cost models helped us understand how selection effects influence whether disputes get initiated and if so whether the initiator carries out its threat or backs down. Selectorate theory provides a theoretical basis for expecting democracies to depend on large coalitions. It also provides a selection argument that is not quite the same as the audience cost account. The two, in fact, are complementary. Selectorate theory provides a substantive underpinning that is coalition-dependent behind the reason for fighting: democrats need to provide adequate public goods, including foreign policy concessions from adversaries, in order to stay in office. Autocrats need to provide resources with which to pay off cronies. Otherwise, members of their coalition will switch their loyalty to someone better able to provide private rewards. This regime-type distinction turns out to have implications for decisions to fight or not and for differences in the effort made to win once war is underway.

War-Selection Calculations

We have seen that democrats have a different distribution of motivations for fighting wars than do autocrats. The logic guiding war choices across regime types also implies differences in the decisions to opt for war or accept a potentially meager negotiated dispute settlement. Those reasons, explained more fully after we review some evidence, are tied to the well-established empirical regularity that democrats, with their dependence on a large coalition, tend to win the wars they fight. Table 6.2 shows that a major reason that democrats do so well in war is that they are highly selective about the wars they fight, choosing to negotiate when the odds of victory in war are not substantial. For this table, I have selected all the disputes in which the initiating side (i.e., the dispute initiator and its allies) could reasonably believe that they would have a tough time winning the dispute. In each case, the ex ante probability of winning, based on the capabilities controlled by the side in question relative to all the capabilities expected to be devoted to the dispute by the belligerents and their allies on both sides, was less than 70 percent.⁶ The columns measure how democratic the initiator was and the rows show whether the dispute became a war or not.⁷

TABLE 6.2 Winning Coalition Size and Likelihood of War Given a Dispute

	Extremely Autocratic ($W = 0$)	Autocratic ($W = 0.25$)	Quasi-Autocratic ($W = 0.50$)	Quasi-Aemocratic ($W = 0.75$)	Mature Democracy ($W = 1.00$)	Total
No war	44 (33.3%)	78 (42.4%)	74 (44.3%)	79 (59.0%)	57 (85.1%)	332 (48.5%)
War	88 (66.7%)	106 (57.6%)	93 (55.7%)	55 (41.0%)	10 (14.9%)	352 (51.5%)
Total	132	184	167	134	67	684

Source: Bueno de Mesquita, Bruce, James D. Morrow, Randolph M. Siverson, and Alastair Smith. 2004. "Testing Novel Implications from the Selectorate Theory of War." *World Politics*, 56(3), p. 379. © Cambridge University Press 2004. Reprinted with permission.

As the evidence shows, the most democratic states are least likely to fight when their odds of victory going into the dispute are not larger than 70 percent. Eighty-five percent of the time under these relatively difficult conditions, democratic states don't fight. Instead, they choose to find a negotiated settlement or acquiesce to the demands of their opponent or

(especially when both parties are democracies) manage to get their opponent to acquiesce to their demands. In contrast, two-thirds of the most autocratic disputants fight when their odds of winning are poorer than 70 percent. They don't seem as worried about defeat. This selection bias, the democratic preference for low-risk wars, may be why democracies are so likely to win, as reported by Reiter and Stam (2002). It may also go a long way to explaining why democracies, like autocracies, are not particularly hesitant to fight against weak foes but are reluctant to be the weak side in a fight. That may be why democracies are far from immune from engaging in wars of colonial or imperial expansion, a question to which we return in [chapter 14](#). The adversaries in such conflicts are typically very weak and easily beaten. The same goes for what may seem like oddball wars, such as the US fight against the tiny island state of Grenada in 1983.

SELECTORATE THEORY AND WAR EFFORT

We have seen significant evidence that provides a foundation for understanding why democracies win so often, but we have not yet seen the logic or the evidence to explain the effort democracies make when a war turns out to be harder to win than expected. Let's start with the logic and then look at systematic evidence and case evidence from World War I to test the theoretical claims.

War Effort Logic

To see the reasoning behind why democrats win so often once they have chosen to fight, let's use a stylized example that reflects an extreme case but reflects the important general principles (see Bueno de Mesquita et al. 1999, 2004). Let's suppose, as before, that we have two countries, A and B, either on the verge of war or already at war. For the sake of argument, we will assume that A's leadership depends on a large coalition of backers and that B's does not. A's leader, like B's, has access to money such as government revenue to pay for public and private goods. We will call that resource pool R . A's leader can choose to distribute all of R (in the limiting case) to his winning coalition or he can allocate some or all of it to the war effort. In our extreme case, let's assume that the leader of A knows his country can defeat B for sure if all of the revenue is put into the war effort. Conversely, if no

extra effort is put into the war effort, so that R is withheld to pay key backers their private benefits, then the war will be lost for sure. Now victory in any dispute has two potential components. First, there is the public good of victory and whatever other policy gains it implies (denoted collectively as V here). Second, there is the value of any private benefits that can be extracted from the vanquished state and distributed among the victor's coalition members (denoted as r/W). By stipulating that r/W is the worth of private benefits taken at the loser's expense, I am assuming that each member of the victor's winning coalition (W) gets his or her share of these private gains. Of course, in reality these benefits are not doled out in equal-sized portions (Smith and Bueno de Mesquita 2012). That, however, will not influence the result here since all that matters is that the incumbent maintain a large enough coalition to survive in office and that means that the average member needs to get his or her fair share— r/W .

We can see that a victory in war is worth $V + r/W$, but it comes at a price (k) so that the value of a war in which all the revenue is put into winning for sure is $V + r/W - k$. None of state A 's own revenue, R , is left over for other uses in this extreme case. If, however, a leader decides to retain all of his revenue in order to distribute it among the members of his winning coalition instead of spending it on the war, then in this stylized example defeat is a certainty and the value of the war is $R/W - k$; that is, there is no public good gain ($V = 0$), the costs of fighting (k) are assumed to remain the same but all revenue is retained to sustain domestic loyalty (R/W).

With this simple setup, we can see that while everyone would prefer winning over losing in the abstract, when push comes to shove, the smaller the leader's winning coalition the more acceptable it can be to lose a war rather than spend the coalition's money on victory. That is, to fight to victory, spending all of R in the process—rather than lose while keeping R —the following must be true:

$$V + \frac{r}{w} - k \geq \frac{R}{W} - k$$

Rearranging terms, we see that this is equivalent to the following statement:

$$V \geq \frac{R - r}{W}$$

When W is very large, as in a democracy, then the right-hand side of the expression is close to zero and so it is highly likely that V is larger than $(R - r)/W$. But when W is small, the right-hand side of the expression is potentially quite large, making all but extremely valuable victories (V really big) less attractive than losing while retaining sufficient private benefits at home for the coalition to keep them loyal. So we can see that if A is democratic, A will value victory relative to keeping revenue much more than will B if B is autocratic. Trying hard to win a war by putting all of R into it becomes attractive to small-coalition B if, for instance, the loot to be won (r) is even more valuable than the domestic revenue (R) that B 's regime generates. This, of course, is an unlikely circumstance. If the loot to be had were that valuable, the owner of the loot would make a greater effort to protect it, making it harder for B to capture it.

To summarize what we have just seen in a highly stylized—but readily generalized—case is that democratic leaders have a good reason to try harder to win the wars they fight than do autocrats. Democrats need to produce ample public goods to keep their massive coalition content. Autocrats do not need to generate effective policy outcomes to survive in office; they rely basically on bribes to their cronies to sustain themselves in power. So we should expect a difference in war-fighting effort and in war-selection by large-coalition leaders as compared to those at the helm of a small-coalition regime. For democrats, victory in war is more valuable relative to retaining revenue for crony purposes. Therefore, democrats are unlikely to fight wars with poor ex ante odds of victory, as established in [table 6.2](#), and if they discover that their chances of winning are not as good as they thought at the outset then they try harder, pouring more resources into the fight to improve their chance to win. For autocrats, the domestic risk of being deposed is greater if they fail to provide private benefits to their coalition than if they do not provide public policy benefits for the society in general. Therefore, withholding resources to sustain crony loyalty is more often critical to autocrats than to democrats. In withholding these resources, autocrats make their own defeat by a foreign adversary more likely and so they more often lose the wars they fight than do democrats (and presumably are somewhat cautious about fighting such wars to begin with).

There are some caveats to these claims. Autocrats will try as hard as anyone in wartime if they believe defeat in war means their removal from office is sufficiently more likely at the hands of the foreign rival than at the

hands of their domestic coalition. Likewise, they will try hard to win if they believe that the nature of their removal will be sufficiently less palatable (as in their execution versus being sent into exile) at the hands of a foreign rival than at the hands of domestic opponents (Goemans 2000, 2008; Chiozza and Goemans 2004). That is, when their expected utility from defeat at the hands of the foreign rival is worse than their expected utility from spending their coalition's private benefits on the war effort, then even autocrats will try hard to win. It is just that the conditions that encourage trying hard are less easily satisfied for an autocrat than for a democrat.

As emphasized in [chapter 1](#), it is one thing to establish the logical truthfulness of a claim and quite another to establish its empirical or policy usefulness. To do that, we must look at the evidence and that is just what we now do.

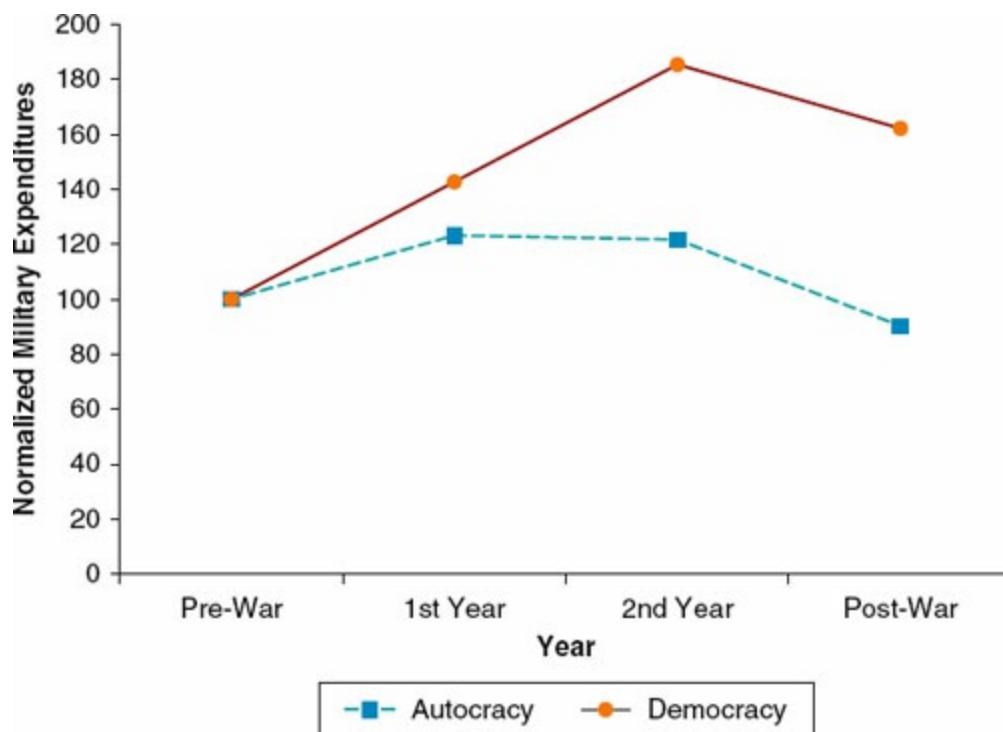
Evidence for the War Effort Logic

[Figure 6.2](#) shows the war effort, measured as military expenditures, for autocracies (or, more precisely, regimes whose winning coalition size score = 0 on a 0–1 scale) and democracies (coalition size = 1) in the run-up to, during, and after war. The lines in the figure reflect the military spending levels that best fit the data on military expenditures for the average mature democracy and the average hard-line autocracy during different war stages. These differences are highly significant in a statistical as well as substantive sense, so the figure tells a fundamental and robust story about regime type and war effort.⁸ Both autocracies and democracies are normalized in the figure to a baseline military expenditure value of 100 before war so that we can easily compare the percentage changes in effort once war is underway. For instance, a score of 110 means a 10 percent increase over the baseline prewar expenditure. A score of eighty-five means a 15 percent drop in military expenditures compared to the prewar level.

As we can see, both kinds of countries spend more on the military when a war begins than they were spending beforehand. Autocrats increase their relative effort by about 20 percent once a war gets going, while democrats increase theirs by more than 40 percent. Even more striking is what happens if the war is prolonged, lasting more than one year. A prolonged war is an indication that things are not proving especially easy for either side. Democrats, as we already have seen, expect their wars to be won easily or

they do not fight. Autocrats do not have the same expectation since they know that they will withhold resources that could have been used in the war to continue to buy crony loyalty instead.

FIGURE 6.2 Military Expenditure, Regime Type, and Duration of War



Source: Bueno de Mesquita, Bruce, James D. Morrow, Randolph M. Siverson, and Alastair Smith. 2004. "Testing Novel Implications from the Selectorate Theory of War." *World Politics*, 56(3), p. 387. © Cambridge University Press 2004. Reprinted with permission.

By the end of the first year of fighting, autocrats have geared up about as much as they ever will (provided the war does not turn into a war for political survival, a relatively rare event, especially when the fighting does not involve at least one powerful democracy). They are not surprised by the difficulty they are having winning because they are not terribly selective about the wars they fight. In the second and subsequent years (if any), their effort remains no different from what it was in the first year of fighting.

Democrats, unlike autocrats, are surprised when victory proves elusive. By the second year, they have discovered that the war is harder to win than they expected. They chose to fight (rather than settle) on the expectation of an

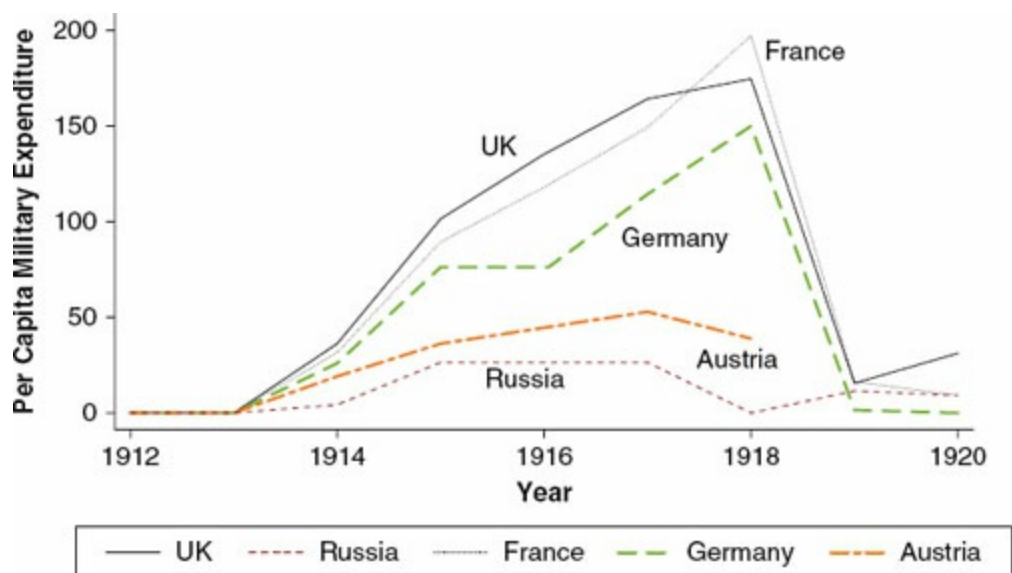
easy, cheap victory. So, having learned that victory is tougher than expected they have two choices: (1) bail out or (2) try harder. Bailing out is rarely an option for democratic leaders since failure to win almost certainly leads to their being removed from office. [Figure 6.2](#) shows us that democrats facing a prolonged war increase their effort tremendously. They spend nearly twice as much on the military as they were spending before the war began, and they also spend vastly more than they were during the first year of fighting when they still thought victory would prove relatively easy. Democrats, in short, try harder to win difficult wars than do autocrats.

[Figure 6.2](#) also shows us what happens after the war is over. Democrats cut back modestly on military spending, while autocrats return to their baseline level or even below. [Chapter 14](#), which addresses post-war world order, explains why democrats cut back less on military spending than do autocrats. The systematic evidence supports the war effort logic. The systematic evidence and logic can also be illustrated with a challenging, highly important case: the war effort experiences of key belligerents in World War I.

[Figure 6.3](#) plots the military expenditures of the primary combatants in World War I. On a per capita basis, tsarist Russia spent the least. Although it was a very large country, it also was a poor country. Eventually, even with low per capita expenditures, the costs of war became sufficiently unpalatable that the war effort, along with other considerations, provoked the October Revolution and Russian withdrawal from the war. Germany and Austria-Hungary, neither a democracy, made substantially smaller efforts than Britain and France. They were both democracies. While everyone spent more once the war began than they had been doing beforehand, from 1915 on, when it was evident the war was not going to be short and easy for anyone, we see little ramping up by the nondemocracies with the exception of Germany. The German war effort fits the expected pattern as well, however. They did not try much harder until near the very end when it was clear that defeat was at hand and that defeat meant the regime of Kaiser Wilhelm could not (and, in fact, did not) survive. In contrast, the democracies continued to increase their expenditures to ensure victory. The pattern is even starker for World War II. Germany, for instance, did not mobilize its steel industry for the war effort even to the levels achieved in World War I. As Albert Speer, a member of Hitler's inner circle, reported in his memoirs, Hitler feared the loss of support if he asked his backers to suffer hardship at home (Speer 1997). Many more

illustrative examples of the great variation in war effort can be found in *The Dictator's Handbook* (Bueno de Mesquita and Smith 2011) for those inclined to prefer case analyses to statistical evidence. However the evidence is evaluated, it seems evident that large-coalition regimes and perhaps other regimes with a large ratio of W to S make a greater effort to prevail once a war is underway and victory proves more difficult than expected.

FIGURE 6.3 Case Study of War Effort: Per Capita Military Expenditures in the First World War



Source: Bueno de Mesquita and Smith, 2011.

War Effort, War Loss, and Leader Deposition

A key to the argument that democracies try harder in war is the difference in their political survival prospects following a defeat in war. The war effort logic, as you saw, hinges on the choice of strategies that minimize the threat of domestic deposition. We have not yet, however, also considered the risk of being thrown out of office by the victor state in the event a war is lost. Here too selectorate logic implies a significant difference in the risks faced by larger and smaller-coalition leaders. Thus, to fully grasp leader choices in war, we need to pursue the linkage between war effort and the risk of foreign deposition following military defeat, weighing it against the risk of being overthrown by domestic forces instead.

According to selectorate logic, autocrats are more likely to be overthrown—and executed—by disgruntled domestic backers for not paying them off than they are by a foreign victor. As a result, autocrats do not try as hard to improve their prospects of victory in war as do democrats, nor do they try as hard to negotiate settlements for their disputes if doing so means shifting private rewards away from their cronies and to the foreign rival (Bueno de Mesquita et al. 2004, Morrow et al. 2006; for a counterargument, see Debs and Goemans 2010 and for a challenge to their claims, see Svobik 2009 and Bak and Palmer 2011). Let's probe this argument more deeply.

If selectorate theory is right, then, as I have said, leaders have to weigh the risks of being deposed by a foreign rival and by a domestic foe when they are called upon to make choices about war and peace. The ample provision of public goods reduces the domestic risks to democrats. The ample provision of private goods reduces the domestic risk to autocrats. Since victorious democrats, for reasons explained in [Chapter 14](#), are more likely to depose and replace vanquished rivals than are victorious autocrats, small-coalition dictators must be especially nervous about defeat at the hands of a democrat. If they lose to an autocrat they probably will have resources taken from them by the rent-seeking small-coalition victor, but they probably will keep their job. And since any domestic challenger will have the same limited resources at her disposal as the defeated dictator, domestic challengers do not gain much advantage from the military failure of the incumbent dictator. They do gain advantage if the vanquished leader “squandered” resources on the war that would have more usefully been spent on buying crony loyalty.

For democrats, the picture is quite different. Since competition for power in large-coalition settings is an [arms race](#) in policy ideas, a democrat who loses a war is likely to be replaced by a domestic competitor; hence Schultz's observation that the loyal opposition in democracies constrains the foreign policy choices of the incumbent, emphasizing those that are likely to lead to a foreign policy success rather than failure. Therefore, while all sorts of leaders face circumstances when they will try very hard to win a war, the impact of selection effects is to encourage democrats to fight “easy” wars or, discovering that the war is not easy, to try harder than autocrats. This means that democrats are likely to win more often and therefore face the risk of being deposed by foreign rivals less often. For democrats, defeat and the associated failure to produce the public good of victory heightens the risk of electoral defeat; for autocrats, spending their coalition's money on anything

—including victory in war—other than the coalition heightens the risk of domestic ouster.

Democrats and autocrats both have strong incentives to engage in backward induction, figuring out the expected consequences of a war for their welfare and then acting according to that strategic logic. The evidence suggests that they rely on that strategic logic in deciding whether to fight or settle their disputes and, if the choice is to fight, how hard they must try to win versus how much they need to reserve resources for their domestic coalition members.

SUMMARY

We saw in this chapter that differences in domestic politics can profoundly alter the risks, costs, conduct, and aftermath of war. None of the central hypotheses examined here, nor the strong evidence in their favor, could be right if we focus on states rather than leaders and internal politics. We saw that the expectation of high audience costs influences which disputes are pursued and which never arise. We saw that audience costs also influence the likelihood that a regime, once engaged in a crisis, will escalate or back down. We saw that, contrary to standard views, weakness does not always invite aggression and that, indeed, sometimes the weak are particularly likely to be the initiators of conflict. We saw reasons that democratic governments, with their reliance on a large coalition of backers, are more selective about the wars they are prepared to fight and they try harder to win than their small-coalition, autocratic counterparts. We also found that democrats are more likely to fight over policy issues and over regime change than are autocrats so that even the reasons for fighting differ because of variations in domestic political institutions.

Perhaps most surprisingly we found that domestic politics shape the will to win. Given a stark choice between winning a war by spending a lot on it or saving money but ensuring defeat, democrats are much more inclined to sink extra resources into the pursuit of victory than are autocrats. We looked at evidence that tests the logic behind these claims and we found them to be consistent with the historical record. Each of these observations (as well as the findings regarding the democratic peace reported in [chapter 14](#)) would be considered false under structural, unitary actor explanations of international affairs. This is because each of these observations involves looking inside the

state, breaking the unitary actor assumption, and allowing an important part of the action in international affairs to arise from factors that differ from state to state and from regime type to regime type.

War is so terrible a feature of international relations that I cannot leave the subject without emphasizing the importance to all of us of improving our understanding of this deadly phenomenon. The past few decades have seen real progress in our theoretical and empirical understanding of the logic behind warfare; most of that progress arises from shifting our focus to the incentives and constraints faced by national leaders and away from treating the state as a unitary actor. Much, of course, remains to be done.

KEY TERMS

arms race

pacific dove hypothesis

reputation

resurrection hypothesis

Answers:

1. c. It depends on the expected costs and benefits from continuing to fight compared to surrendering.
2. d. Governments that are weak relative to their adversasry and are dovish are especially likely to initiate the use of force in a dispute. These “pacific doves” have no other attractive path to a relatively good outcome.
3. a. Generally, dependence on a large electoral constituency makes threats more credible because threats will not be made in the first place if they are not anticipated to have domestic support and because seeing that domestic backing, rivals are, all else being equal, more likely to back down or compromise than necessitate a fight.
4. b. Partisan politics helps discipline re-election oriented leaders to be highly selective about foreign adventures so as to avoid engaging in foreign policies that the opposition can exploit for electoral advantage.

¹ Some portions of this chapter rely on material in Bueno de Mesquita and Smith (2012). Some other parts are based on material in Bueno de Mesquita and Smith (2011).

² The threat of German submarines to American commerce and passenger ships was the centerpiece of Woodrow Wilson's decision in 1917 to seek a congressional declaration of war against Germany. The submarine threat was neatly captured in the slogan, "Remember the *Lusitania*," an American ship sunk by German submarines in May 1915, resulting in the death of 128 Americans. In addition to passengers, the *Lusitania* also carried munitions for Britain's use in World War I. Although the threat from German submarine warfare was very real, this account of the US entry into World War I cannot be the whole story. The *Lusitania* was sunk nearly two years before the United States declared war. In addition, President Wilson won reelection in 1916 on the slogan, "He kept us out of war." After securing a second term, however, he pointed to Germany's submarine warfare threat (which had been renewed after a period of relative quiescence) to mobilize public opinion. The German threat was primarily against ships approaching ports in England or Ireland, the likely destinations for ships carrying munitions and other material of significance in the allied war effort. The German effort to forge an alliance with Mexico against the United States (as revealed in the infamous Zimmerman telegram), which included promises to return to Mexico territories lost to the United States (such as Texas) was unlikely to have been taken seriously except as a propaganda tool. What the balance was between Wilson's concern that American security was at grave risk due to Germany's submarine warfare policy and his conclusion that US interests lay with Britain cannot be known for certain. What is clear, however, is that he weighed carefully the domestic implications of his choices (hence his campaign slogan) and their national security consequences.

³ For those of you who are comfortable with some calculus, notice that $\frac{\partial p}{\partial \psi} = \frac{1 - m - ka}{(1 + \psi)^2}$ which is negative provided that $m + ka > 1$

⁴ This analysis of Saddam Hussein is an informal example of the application of Bayes' rule, the specifics of which are introduced in [chapter 13](#). Bayes' rule says that the probability of some outcome X , contingent on some circumstance Y , $P(X | Y) = P(Y | X)PX / [P(Y | X)PX + P(Y | \text{Not } X)P(\text{Not } X)]$. Imagine, for instance, that the probability of using steroids if a baseball player tests positive for steroids is 0.9. Imagine that the probability a player uses steroids is just 10 percent as appeared to be the case when major league baseball did tests in 2003. Imagine also that about 10 percent of the nonsteroid using population tests positive incorrectly as has been established in numerous medical studies. The $P(\text{steroid use} | \text{positive test}) = P(\text{positive test} | \text{steroid use})P(\text{steroid use}) / [P(\text{positive test} | \text{steroid use})P(\text{steroid use}) + P(\text{positive test} | \text{no steroid use})P(\text{no steroid use})] = (0.9)(0.1) / [(0.9)(0.1) + (0.1)(.9)] = 0.5$. If we test 100 people and 10 use steroids and 90 do not, 9 of 10 test positive and 9 of 90 test positive, so the odds that a positive test indicates steroid use in this example is 9/18. We have learned that the probability of use for an individual who tested positive is higher than we initially thought (10 percent use), but it is still far from a sure thing. It is just equal to the flip of a coin.

⁵ The data on the purpose behind conflict for the initiator is drawn from the dyadic Militarized Interstate dispute data version 3.1 and Bueno de Mesquita et al. (2003) estimation of coalition size.

⁶ Comparable results are found for lower or higher thresholds.

⁷ I use the selectorate theory's measure of winning coalition size, W , to assess how democratic or autocratic the dispute initiator was. Details on how this is measured are found in Bueno de Mesquita et al. (2003, 137).

⁸ A detailed breakdown of the evidence is found in Bueno de Mesquita et al. (2004, esp. table 2).

7

How International Organizations Work or Don't Work



Afghanistan's President Hamid Karzai addresses a few members in the nearly empty General Assembly during the 61st session of the UN General Assembly at UN headquarters on September 20, 2006. Few turn up when they anticipate that so little of significance will be achieved based on the actions of the full membership.

OVERVIEW

- International organizations are designed to facilitate cooperation and coordination across states.
- More inclusive organizations are likely to suffer from collective action problems that lead to suboptimal production of the benefits—often public goods—an international institution is intended to

provide.

- The problems inherent in designing international organizations revolve around the extent to which their products are **excludable** or **nonexcludable** and rival or nonrival.
- It is easier to design **deep agreements** when few states are members and easiest when agreements are only between two states.
- But there are ways to induce cooperative behavior, through information dissemination and organizational **flexibility**, even when interactions involve many states.
- The strategic perspective reminds us in looking at international organizations to evaluate both their structure (winning coalition size relative to selectorate size within the organization) and the fit between their structurally induced actions and the interests of the domestic winning coalition and selectorate within each member state or at least member states in the organization's winning coalition.

Assumptions Check

1. Members of global international organizations almost always comply with what they promised to do because _____.
 - a. they are asked to do very little by the terms of the agreements they sign
 - b. they recognize that they must do what they have promised
 - c. they fear being ostracized from the community of nations if they promise to do something and then renege
 - d. they wouldn't sign an international organization's agreement unless they were prepared to make a sacrifice for the greater good
2. Global problems are said to call for global solutions. Yet global international organizations are generally less effective than much smaller ones. Why would that be so?
 - a. The signatories do not understand what is expected of them.
 - b. To get nearly everyone to sign on, global organizations ask for no

more than the least that everyone can agree to.

- c. It is easy to cheat with so many members and have a reasonable chance of not getting caught.
3. Cheating seems like bad behavior whether in personal dealings or within international organizations. How, then, can building in the flexibility to allow some cheating improve the performance of international organizations relative to those that forbid any cheating?
- a. The flexibility to cheat is always a mistake because it invites governments to cheat.
 - b. The flexibility to cheat allows governments to overcome short-term difficult periods while still remaining generally faithful to their commitments.
 - c. The flexibility to cheat means that members can better figure out who is really committed to the organization's goals and who is not and punish them accordingly.
4. Why might we think of the critical parts of the United Nations as an autocracy or oligarchy rather than as an organization representative of its members' interests? If that characterization, as an autocracy or oligarchy is right, then is the United Nations the right place to refer critical questions to?

See end of chapter for answers.

The previous two chapters examined the worst side of international politics: (1) conflict and (2) war. Everyone would rather avoid war if they can find a way to get its benefits at a lower price. In fact, this is why war is ex post inefficient from the collective perspective of the people in a state. Still, as Margaret Thatcher's Falkland Islands War illustrates, sometimes a little war can be just what the political doctor ordered, saving a leader from the scrap heap of history. It is, of course, better to find a way to solve a problem without resorting to violence. This chapter is about the institutions people have invented to try to do just that. Institutions like the United Nations or the League of Nations before it are designed to solve coordination and commitment problems and to reduce uncertainty that can

lead disputes down a dangerous path. Organizations like the World Trade Organization (WTO) and the Criminal Court of Justice are designed to provide law-based systems for resolving disputes peacefully. Treaties such as the nine UN Treaties on Human Rights, the 1979 UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), the 1948 Convention on the Prevention and Punishment of the Crime of Genocide, and many others all have the purpose of improving people's quality of life by providing mechanisms and rules to solve coordination, distribution, and information problems. Here we will examine how international organizations work, what impediments make solving problems difficult, what international organizations and agreements do and don't do, and how they might be improved to function more effectively.

THE PURPOSE OF INTERNATIONAL RULES AND INSTITUTIONS

As we saw in [chapters 5](#) and [6](#), governments compete over territorial claims, they argue about who owns natural resource wealth, they dispute international policy decisions, and sometimes they confront each other over seemingly purely domestic issues like genocide or other less egregious but still horrific violations of human and individual rights. International rules, laws, and norms of conduct—as well as the organizations responsible for making and enforcing them—all reflect ways to solve fundamental challenges to peace. Sometimes it is politically beneficial for leaders of different countries to find a way to coordinate with one another. When an issue just involves coordination, without any differences in the benefits to be derived from cooperating with others, then reaching international agreements to regulate behavior is rather easy. Air traffic control is a good example of an international agreement that no one has a strong incentive to violate. By agreeing to a common language—English—for commercial air traffic communications around the world, everyone helps minimize the risk of a tragic accident resulting from misunderstanding say during an emergency landing in a foreign airport. Cooperation is easily achieved when it is in everyone's interest—that is, when no one can get extra benefits by **free riding** on the efforts of others or by cheating, secretly breaking the agreement. The interesting challenge for those who hope to promote

international cooperation is to design agreements and institutions to enforce them when incentives do exist to cheat or to free ride. Without designing proper means to monitor and punish cheating into an organization, it is hard to stop some members from getting the benefits without sharing in the costs.

Because cooperation is difficult to achieve when organizations face distribution issues, an organization's design must reflect at the outset the best judgments of the members regarding how to address the problems that are likely to arise, keeping in mind that their best judgment reflects what is best for each of them within the organization rather than what is best for everyone. In particular, there are five primary questions that must be considered when designing an international organization:

1. How inclusive is the organization's membership?
2. How are decisions made?
3. How likely is compliance with the organization's decisions?
4. How is punishment imposed for noncompliance?
5. How effective are the rules and regulations established by the organization?

As we will see, each of these problems is related to the others. Inclusiveness, for instance, directly influences compliance, generally in a negative way. It seems obvious that there is little point to an institution whose participants do not comply with its rules and regulations. Yet we will see that compliance is easily achieved by international organizations, especially those with a great many members, provided they, meaning their founders and members, are willing to accomplish very little (Axelrod 1984; Oye 1985; Downs, Rocke, and Barsoom 1996; Fearon 1998; Blaydes 2004). Compliance is particularly difficult to achieve if the institution really insists on its members undertaking costly changes in behavior. An organization designed to be flexible enough to allow members some wiggle room for cheating may actually work better than one that insists on full compliance even when full compliance is attained (Downs and Rocke 1995; Rosendorff and Milner 2001). But once flexibility is introduced, the international organization needs effective rules for working out how much cheating is going on. That means the organization needs a way to monitor what its members are doing and punish them if they deviate too much from the rules of conduct to which they agreed (Milgrom, North and Weingast 1990; Alt and Gilligan 1994; Morrow

1994b; McGillivray and Smith 2000, 2008). As it turns out, organizations can avoid the difficulties inherent in catching cheaters and punishing them by avoiding the effective design of mechanisms to monitor and punish misconduct. The Organization of the Petroleum Exporting Countries (OPEC), for instance, has clear oil production quotas for its members but studiously has avoided adopting the means to know who is cheating on their quota and by how much and to then punish the cheaters. The upshot is that OPEC has been ineffective in shaping oil prices but nevertheless the organization persists.

In general, it is true that the greater the depth of an organization, meaning how much change in behavior it demands from its members, the harder it is to get many governments to sign on or to agree to stiff rules of monitoring and enforcement (Downs et al. 1996; Fearon 1998; Johns 2011). It is much easier to persuade governments to participate in **shallow agreements**, which demand little of them. We will see in the next chapter that shallowness is a common characteristic of international environmental agreements and that it is the shallowness, coupled with the lack of enforcement mechanisms that makes pursuit of global solutions to climate change more attractive than smaller agreements, among a few key countries.

It so happens that all of these problems point the way not only to the limitations of international organizations but also to ways to design them so that they work better. To get them to work effectively, however, we must first understand the pathologies behind international organizations as many are currently designed and how the individual pathologies might be effectively addressed.

THE PROBLEMS OF RIVALRY AND NONEXCLUDABILITY

The problems of compliance, distributional inequities, monitoring, and enforcement are different facets of a broader problem: the problem of collective action. International organizations are generally established to address problems so big and so far reaching that they require, or are thought to require, many—maybe even all—national governments to coordinate their efforts in order to achieve a solution. But, of course, the bigger the problem and the more cooperation needed to correct it the greater the difficulty in

getting everyone to pull their weight. These sorts of big problems can be divided into four analytically related groups based on the extent to which they address goods—loosely, products and services—that are rival or nonrival and that are excludable or nonexcludable.

Rival goods are things that can be used up so that when one person consumes the good it is no longer available to another person. The fact that they can be depleted contributes to serious problems in forging and abiding by cooperative agreements. For instance, the Euphrates River originates in Turkey, flowing from there to Syria and Iraq and then on to the Persian Gulf. Any upriver locale could, in principle, dam the river and limit or eliminate the flow to locations downstream. An upstream government might do so to increase its supply of drinking water, its access to hydroelectric power, to create a water-based recreation area, or to deprive a downstream rival government of the benefits of the river's water. In fact, the Turkish government has built several dams along the Euphrates that are important sources of its hydroelectric power generation. Syria, downstream, negotiated an agreement with Turkey over the flow that must continue into that country but in 1975 the Syrians found themselves in a dispute with downstream Iraq because the Syrians, like the Turks, were damming the river for their own benefit at the expense of the would-be downriver consumers in Iraq. That particular dispute was resolved when Saudi Arabia's government stepped up as a mediator. As in the 1975 Tabqa Dam dispute between Syria and Iraq, sometimes international agreements are worked out between just two or three governments.

Other times, disputes over rival goods require more signatories and broader, more general principles to prevent or coordinate the distribution of the rival good. Indeed, river rights—riparian rights as they are known—are a major source of international controversy and conflict. Water rights are one of the central concerns in the dispute between Israel and Syria, for instance, over the Golan Heights. They also were a major source of dispute between India and Pakistan over control of Kashmir and Jammu through which the Indus River flows on its way both to India and Pakistan. That water dispute was referred to the United Nations, an organization that includes almost every government in the world. The United Nations, with great multilateral involvement, negotiated a treaty over water access that has generally been successfully implemented even during times of crisis between India and Pakistan.

The depletion of rival goods, like access to water or offshore oil and natural gas fields, is one important source of international difficulty that relies on treaties and other organizational agreements for solutions. When goods, like water supplies or oil supplies, are rivalrous, they create distribution problems that impede coordination needed to exploit the benefit. After all, if one government controls access to an oil field, even if the oil field straddles many national boundaries, then those with oil under their ground but without access to drilling and exploration capabilities simply lose out. But if they can negotiate an agreement with those who have the requisite exploration, development and production capabilities, like the big international oil companies, then they can get a piece of the action. To do so, however, the participants must have agreed on how to divide the revenue flow and they must be credibly committed to the agreed upon distribution. Getting a credible commitment can prove to be difficult when the rivalrous wealth at stake is vast and the upfront investments to exploit it are also vast. For instance, foreign oil companies helped develop Venezuela's oil wealth only to find that the government headed by Hugo Chavez nationalized it all. It is easy to see that it becomes difficult to reach future agreements to cooperate when rival goods are at stake. But rival goods are but one impediment to successful cooperation.

A second dimension that introduces difficulties in fostering international cooperation arises when goods, whether rival or not, are excludable or nonexcludable. Nonexcludability means that one person's use cannot prevent others from consuming the same good whether they paid for its benefits (or harm) or not. For instance, if the United States allows coal-burning energy plants to emit sulfur, carbon dioxide, or other pollutants, Canadians cannot be excluded from the harmful effects of those pollutants if the prevailing winds carry them across the US border into Canada. In this example, pollutants originating in the United States have a **negative externality**. They harm people in Canada who had no part in producing the pollution and get no offsetting benefit from the energy produced in the United States for use by American industry and consumers. As long as the prevailing winds carry the pollutants, Canadians cannot be excluded from their effects.

Equivalently, nonexcludability can refer to benefits that are produced by one party while also benefiting others whether they pay for the benefit or not. For instance, the US government has worked to reduce greenhouse gas emissions over the past few years while Canada has done much less on this

dimension. The air containing reduced carbon dioxide from the United States, for instance, drifts over Canada just as US sulfur emissions do. The reduced carbon dioxide helps dilute carbon dioxide concentrations in the air over Canada; Canadians cannot be excluded from this benefit even though they did not pay for it. This is an example of a **positive externality**, a gain obtained by Canada even though they did not contribute to its production.

Table 7.1 identifies four types of goods based on their relationship to the two dimensions of excludability and rivalry. This table is a handy way to think about the sorts of problems different international organizations are designed to address. Each problem—because it is made up of a different mix of rivalry and excludability—calls for somewhat different, though often interrelated, solutions. We will explore each in this and subsequent chapters.

We met the idea of public goods in **chapter 2**—that is, **nonrival goods** and nonexcludable goods. Clean air is a good example and one that we take up in detail in **chapter 8**. When the air is clean, my breathing outdoors does not use up the clean air: my access to clean air is not in competition with your access; it is nonrival. Furthermore, whether or not I paid through taxes or other means to make the air clean, I get to enjoy its benefits—that is, it is not excludable. Public goods benefit all of us whether we pay for them or not. That can make our collective effort to generate public goods problematic (Samuelson 1954; Olson 1965; Medina 2007).

Public goods are not the only type of benefit that can make collective cooperative action difficult. Sometimes the international community confronts problems in which benefits are nonexcludable, just as in a public goods setting, but the benefits are rivalrous; they can be depleted. These benefits involve **common-pool resources**. The associated coordination problem is known as the **tragedy of the commons**. International fishing rights are a classic example of this problem area (Ostrom 2003; Eggertsson 2005; Gans, Murray, and Craven 2011). Although laws intended to govern sovereign rights define territorial waters and so the portions of the ocean beyond a country's coast line that still belong to it, fish know nothing about these agreements and don't care whether they are swimming in territorial waters or not. They swim freely, following their food supply in and out of territorial waters. So the fish in the world's oceans are thought of as a common-pool resource. They belong to everyone (or, perhaps in the eyes of some, to no one), and fishermen in international waters cannot easily be excluded from pursuing fish regardless of where the fish originated. But

because they “belong” to no one in particular and many fish have great commercial value, there is rivalry over capturing their value. A prospective danger, the tragedy of the commons, is that the seas—held in common—are overfished, depleting the future supply of fish. This is happening now. Although pretty much all fishermen agree that it is important to sustain the stock of commercially valuable fish, each individually wants also to maximize his or her income. Therein lays a problem. Those who overfish jeopardize the future supply, but they earn more now. If they care enough more about today compared to tomorrow, they can be expected to overfish, producing the tragedy of the commons: in the long run, the rivalrous, nonexcludable good will be depleted. The decline in the world’s coral reefs, essential for breeding and feeding many species of fish, is a by-product of exactly this problem.

TABLE 7.1 **Conditions in Search of International Solutions**

	Excludable	Non-Excludable
Rival	Private Goods: Imports and Exports, Currency Exchange and Commodity Trading	Common-Pool Resources: Fishing, Cross-Border Rivers
Nonrival	Club Goods: Intellectual Property, Religious Rights	Public Goods: Clean Air, National Defense

A third type of good, known as **club goods**, share with public goods that they are nonrivalrous while differing from public goods and common-pool resources by being excludable. Intellectual property is an example of a club good. Access to intellectual property comes at a price, thereby excluding any who do not pay for access, but consumption of intellectual property does not limit anyone else’s opportunity to consume the same intellectual product. When you purchase a book, buy music, pay to watch a movie, or use computer software that you have purchased, you do not diminish my ability to read the same book (though not your specific copy of it), listen to the same piece of music, watch the same movie, or run the same software on my computer: none of these are depleted by your use. But without paying for the use of this intellectual property you cannot legally access any of these club goods, so you can be excluded from their use. Indeed, as should be evident, the reason that there are international agreements to protect copyrights and patents, for instance, is exactly to solve the problem that some people may reproduce intellectual property without permission, violating the idea of

excludability.

Private goods, unlike the other three categories, are both excludable and rival. Law from its very beginnings has been designed to try to address competition over private goods. The Ten Commandments instruct “thou shalt not steal,” recognizing that each person’s personal property needs to be protected against thugs and bullies who would take it if they could. International courts are often convened to respond to violations of international laws intended to protect private goods, as in much trade law, just as international police, like Interpol, exist to protect against violations of personal or **property rights** by holding those who violate these laws accountable wherever they may be.

Among the problems induced by nonexcludability, in particular, the biggest is the **collective action problem**. This is the inherent difficulty in getting everyone or nearly everyone to coordinate on producing some important policy, like universal peace or reduced greenhouse gas emissions, when there are incentives to cheat or free ride. Let’s have a look at the collective action problem in some detail.

THE COLLECTIVE ACTION PROBLEM

A simple model is all we need to see the tremendous organizational challenge created when benefits are nonexcludable. Let’s suppose that there is agreement on the importance of producing some nonexcludable benefit whose value we can denote as B . Let’s also assume that the probability that the benefit is produced (or, alternatively, the proportion of the benefit that is produced) depends on how many national governments agree to participate in a costly arrangement, such as cleaning up polluted air, to generate the benefit that they all will enjoy. With N national governments, we will assume that each one contributes equally to the probability that the nonexcludable benefit is produced. This is a great simplification that we will relax in [chapter 8](#) when we apply this reasoning to efforts to reduce **greenhouse gases** but for now it is a simplification that does not fundamentally alter the analysis and makes the central problem crystal clear. To generate its contribution to the likelihood that the nonexcludable benefit is produced each national government must spend an amount c out of its national revenue.

With these assumptions in place, we can see that if every government pays its share to create the nonexcludable benefit, then B is produced for sure

at a global cost of Nc . The net value then is $B - Nc$. We can also see that if one government shirks its responsibility then the expected value of B to everyone is $(N - 1)/N \cdot B$ with each of $N - 1$ governments paying c , the cost of the benefit, while the one shirker expects as well to enjoy the benefit B with probability $(N - 1)/N$ but the shirker pays none of the cost (for the shirker $c = 0$). The shirker free rides on the effort of everyone else. As N gets larger, $(N - 1)/N$ gets to be close to 1 so if only one government shirks, the benefit is almost certainly produced, or as an alternative way of thinking about it, almost all of B is produced. Its expected value is $(N - 1)/N \cdot B$. The problem for all those who pay the cost of creating the nonexcludable benefit is that the free rider cannot be cut off from participating in the consumption of the benefit. The marginal contribution of any one national government to the probability that everyone gets the full benefit is $1/N$. This is a very small marginal contribution as N gets large (as when there is a global agreement including all nations). To have an incentive to free ride, what must be true is that for the would-be shirker $1/N \cdot B$ is smaller than the cost, c , of contributing to generating the benefit. When the cost to contributing to the production of the nonexcludable good exceeds the marginal increase in the expected value of the good then a government leadership has a rational incentive to free ride on the international efforts of others.

I argued in [chapter 2](#) that government leaders want to maximize their discretionary control over revenue. Here is a perfect opportunity for them to do so. Whether they pay for B or not they, and their coalition of essential backers, get to enjoy the quantity of B that is produced. They can keep their money and still enjoy the value of the benefit that others pay to produce. Every government can make the same calculation. Then only those for whom the marginal gain of their effort exceeds their cost will contribute to creating the nonexcludable good. The upshot is that the socially or globally desired amount of the nonexcludable good is not produced. Instead, a smaller amount, a suboptimal amount, is produced by those governments for which their marginal gain ($1/N \cdot B$) is greater than their marginal cost (c). Referring back to [table 7.1](#), we see that this suboptimal production of a nonexcludable benefit is to be expected whenever nations are called upon to create public goods or solve common-pool resource problems. We see also that as N increases, holding everything else constant, the problem is exacerbated. N increases as the number of signatories to an international agreement or members in an international organization increases. All-inclusive

organizations, like the United Nations for instance, are therefore more likely to produce too little of whatever nonexcludable good—like world peace or clean air—they are designed to enhance than are less-inclusive organizations.

The free rider problem is everywhere, and it has huge consequences. Fish can be expected to be overfished, forests can be expected to be overharvested, effective peacekeeping can be expected to be undersupplied, and the best shipping lanes can be expected to be overcrowded unless the collective action problem is effectively addressed. Consider the economic woes that have threatened the nations that adopted the euro, which first went into general circulation in 2002. Of the twenty-seven European states in the European Union, twenty-three adopted the euro as their official national currency. These countries range from such small states as Malta and Cyprus (not to forget San Marino and Vatican City) to such large countries as France, Germany, and Spain. The agreement to adopt a common currency was designed to coordinate trade and economic policy within Europe, promote the economic and political unification of Europe, and stabilize its economies. A common currency meant that trade, travel, and banking could be simplified. It didn't matter whether you were shopping in Greece, France, or the Netherlands; prices were all quoted in the same currency. It seemed like a remarkably good idea when it was first agreed to in the late 1990s, but agreement on a common currency creates problems as well as benefits. One of those problems is the free rider problem, which today has shaken European and global economic performance to its core. After all, the euro is the second most traded currency in the world, behind only the US dollar. It is a major reserve currency, just as the dollar is, meaning that a vast quantity of international business transactions are carried out in euros whether that is the currency of the countries involved or not. So when free riding shakes up the euro it shakes up not only the eurozone—the countries that have formally adopted the euro—but the entire world's economy.

All of the eurozone members derive the nonexcludable benefits of a single currency. To get the common currency to work effectively, producing more of the benefits, it is important that the participating governments share certain burdens in common. For example, it is important that the participating governments in a common currency adopt similar taxing, borrowing, and spending policies to prevent wildly different levels of local price inflation, radically different growth rates, and radically different levels of welfare support for their citizenry. Yet, as the logic of collective action teaches us,

free riding was a real risk for the eurozone, a risk that has now been realized. Each national government could expect to derive the benefits associated with a common central bank and the discipline it is supposed to impose on spending but each government could also shirk, free riding on the efforts of others. The eurozone economic crisis of the past few years, discussed in further detail in [chapter 11](#), is certainly due to some significant degree to the incentive to cheat and free ride. While everyone agreed on responsible economic policies, many eurozone members, facing domestic political risks from abiding by their commitments, spent beyond their means, trusting in the European Central Bank to bail them out. And, truth be told, they probably made politically, though not economically, reasonable choices. The European Central Bank has stepped up to bail out Greece and Ireland and provided support for bond payments that may help insulate Spain, Portugal, and Italy from future consequences of their earlier spending and indebtedness decisions.

Greece, with a very highly regulated economy and profligate spending, found itself by 2011 unable to meet the cost of servicing its debt. It could no longer pay the creditors whose money helped keep the Greek government and Greek economy afloat. Vast spending beyond its means worked well for a succession of Greek governments. By implementing popular, but costly, social welfare programs, prime ministers and their parties improved their odds of reelection. Although Greece's electoral system emphasizes multimember districts and a form of proportional representation—both conducive to a multiparty system—Greek politics before the euro crisis were dominated by two political parties: (1) the New Democrats (ND) and (2) the Panhellenic Socialist Movement (PASOK). PASOK, for instance, has been in the government for 14 of the past 19 years. Eventually, however, all the spending could not be sustained and with the severe austerity measures demanded as the price for the Central Bank bailout, the leading parties found themselves facing the prospect of political upheaval. The economic and political problems were severe. Without the bailout, Greece would have defaulted on its loans and probably would have been compelled to abandon the euro and make a costly effort to reinstate its earlier currency, the drachma. With the bailout, the leadership faced riots in the streets as the severe austerity budget required by the Central Bank meant cutting popular programs and, not coincidentally, jeopardizing the incumbent party's hold on power. Having been for a long time a free rider on the more responsible

economic policies adopted by Germany, the Netherlands, and others, countries like Greece, Ireland, and Portugal, were able to have their cake—the benefits of membership in the eurozone—and eat it too in the form of getting the benefits of other governments' more responsible taxing and spending decisions. Leaders, apparently interested in theirs and their party's short-term political fortunes, used the collective action problem to exploit the efforts of others, enjoying benefits while—for a time—avoiding the costs. In the case of Greece, the short-term political choices caught up with the leadership in the spring of 2012. The government was defeated at the polls. After pivotal parties staked out the position that they would not accept the European Union's austerity requirements while the previously ruling parties staked out the position that austerity was the price to save the Greek economy and keep it in the eurozone, neither side could put together a ruling coalition. As we have learned to expect, individual Greek voters had put their short-term welfare first and voted against parties supporting austerity. But then they saw the international reaction and the flight of money out of Greek banks and into safer havens. With the election failing to produce a government, a second election only weeks later was required. The voters then faced the stark choice of austerity as the road to keeping the euro or giving up the euro in favor of the drachma. They chose the euro. That meant that the ND and PASOK, two former rivals, were once again the electoral winners. They formed a unity government that has pursued tough austerity measures but may still face pressure to abandon the euro and to default on its debts. It is too soon to anticipate how the Greek economic crisis will be resolved, but it is abundantly clear that domestic pressures have clashed with the demands of membership in the eurozone, putting Greece's political leaders in a nearly untenable position whatever they do.

ORGANIZATIONAL SOLUTIONS TO COLLECTIVE ACTION

Collective action problems, being endemic, have gotten lots of attention by the designers of international organizations and the researchers who study them. One lesson that we have learned, or should have learned, is that global problems are rarely solved through global solutions. When everyone or nearly everyone signs on to an international agreement, we can be confident

that free riding is going to take place or else the agreement is constructed to be so shallow that no one has to cheat. They haven't been asked to change their behavior in a way so costly that the costs of change outweigh the benefits. Of course, that relationship between costs and benefits is most easily assured by asking signatories to make impressive promises backed up by so many caveats, clauses, and conditions that the promises don't really mean anything.

It is easy to get the world's national governments to sign on to shallow international agreements. As we will see in [chapter 8](#), this has been a big part of the story behind the failure of the international community to address global warming successfully. It is equally a major contributor to the failure to spread and protect human rights. When there are no consequences for making promises, everyone is happy to do so. But there are ways to design better outcomes at least some of the time. These include, for instance, reducing the size of international organizations to include only those most committed to paying the price of its goals; designing federalism into an organization's structure so that decision making gets filtered down to a small group; constructing punishment strategies that put leader survival at risk for cheating and free riding rather than enhancing survival through those bad behaviors; and utilizing other means as well, all examined in the pages that follow.

Cooperation through Repeated Bilateral Interaction

One solution to ineffective global agreements is to design them to be signed initially only by those few who will accept demanding terms—that is, only those for whom the benefits of collective action outweigh the costs. This can be achieved, for instance, by making the act of free riding too costly. For instance, as the number of signatories to an agreement shrinks, then $1/N$ (each signatory's share of responsibility for producing a nonexcludable benefit) increases. As $1/N \cdot B$ gets bigger, it is also true that the odds that it is bigger than c increases apace. That means compliance becomes feasible even when compliant behavior involves real costs. Of course, there is a clear trade-off between size and value of the benefits produced. As N shrinks, the odds of avoiding free riding improve, but the total worth of the benefit is likely to be diminished, implying that there is a benefit and cost specific optimal size for international organizations (Bueno de Mesquita and Stephenson 2006).

The smallest possible international agreement includes only two members

—as is common in trade deals and military alliances. Bilateral agreements that produce benefits in proportion to the frequency with which the parties cooperate with each other can be especially effective at solving the problems inherent in large-group collective action situations. The more either party to a bilateral deal cheats, the less the individual and collective benefits that get produced and distributed. To see how this works, let's have a look at what happens when two governments must deal with each other over and over again in a situation we know tempts decision makers to cheat: the prisoner's dilemma.

We saw in [chapter 4](#) that short-term interests favor cheating in the prisoner's dilemma and that, in fact, players have a dominant strategy—to defect from whatever they might have promised to do to cooperate with the other player (i.e., cheat on any bilateral deal they agree to). But when two governments must interact over and over again, without knowing how many interactions it will take before the problem confronting them is resolved (or negotiations are broken off), it turns out they can find a self-interested path to cooperation. The possibility of cooperation even in the face of distributional differences relies on a concept called the **shadow of the future**. This concept tells us that if the future is valued enough that the future stream of expected benefits outweighs the opportunity to get a onetime big payoff, then decision makers who benefit in the short run from noncooperation can engage in cooperative behavior over the long run out of their own self-interest (Taylor 1976; Axelrod 1984).

The logic for promoting cooperation when short-term interests encourage noncooperative behavior is readily explained. Recall that the payoffs in the prisoner's dilemma are T (for temptation) for a player who does not cooperate when the other player does, S (sucker) for a player who cooperates when the other does not, R (reward) when both players cooperate, and P (punishment) when neither player cooperates. The game assumes that $T > R > P > S$. To induce cooperation when the game is repeated without the players knowing when it will end, it must be true that the value of the reward payoff is larger than the average of the values of the sucker and temptation payoffs ($R > (T + S)/2$). This added condition means that it is better for the players to cooperate than it is for them to alternate between defection (cheating or free riding) while the other cooperates and then switching roles.

The repeated version of the game can be solved by finding the subgame perfect Nash equilibrium—that is, the set of strategies from which no player

has a unilateral incentive to switch and in which each player makes her or his best response to the action of the other player when the best response is determined by calculating what is best to do from that point in the game to its end (through backward induction). The strategies in the one-shot play of the game are, as we know, for each to defect. But with repeated play, joint cooperation proves to be one of many possible Nash equilibria produced by a strategy called **tit for tat**, which I explain shortly. Before showing that this is true, we should reflect on the special circumstance required for it to be true: the players do not know when the game will end.

As it happens, international players often find themselves repeatedly involved in the troubling circumstances of a prisoner's dilemma without knowing when the situation will be resolved one way or another. For example, the US government and the North Korean government face off repeatedly in situations where mutual cooperation could benefit both, but mutual distrust prevents (potentially costly) attempts at cooperation. The North Korean regime wants US food aid, for instance, but is fearful that the US government is interested in deposing the North's regime, replacing it with one that is expected to be friendlier. So rather than gamble on getting aid or being attacked, the North continues its decision to make promises and then back down from them, trying to test ballistic missiles, nuclear weapons, and the like. If the United States continued to provide food aid and other benefits while the North Koreans engaged in such actions, then the North's leaders would enjoy the temptation payoff T and the US leadership would suffer politically, getting the sucker's payoff. That circumstance would be reversed if the US government withheld benefits from the North even if they dismantled their nuclear program and verifiably ended their ballistic missile development. In that circumstance, the US government would gain the temptation benefit and the Kim Jong-Un regime would receive the sucker's payoff. Should the US government provide food aid and other benefits to the North Koreans in exchange for the North Koreans ending their nuclear program, then both sides are rewarded and get the reward payoff (R). But we can reasonably expect that each side fears gambling on mistakenly trusting that the other is well intentioned when if it isn't that could lead to a politically untenable outcome for the trusting side. Thus, in one-shot play, both sides have incentives to make lofty promises that they do not fulfill, producing the joint punishment outcome. The same problem has been a recurrent theme of negotiations between the governments of the United States and Iran. In a

different setting, this same problem arises between the United States and China over issues such as currency **exchange rates**, respect for trade agreements or domestic human rights policies. On currency, for instance, China's yuan (also called the Renminbi) is structured to trade within narrow bands that are pegged to the US dollar. This, according to the US trade representative's office, keeps the value of the yuan artificially low, meaning that it takes many yuan to buy a dollar, as discussed more fully in [chapter 11](#). The upshot is that American export goods are too expensive for many Chinese to buy them, restricting the Chinese consumer market overwhelmingly to goods made in China. China counters that a stronger yuan—as sought by the US government—would hamper its growth and competitiveness in international markets, making its goods more expensive for importers, limiting how much it could sell. The difficulty in resolving these problems can be traced, at least in part, to distrust.

Distrust is at the heart of the prisoner's dilemma. Because the prisoner's dilemma is a noncooperative game we know that promises of cooperation made by either or both players mean nothing. Whatever agreement might have been reached previously, each should recognize that the other player could exploit the situation by defecting. This is the credible commitment problem we met earlier. Fortunately, the dilemma in the prisoner's dilemma can be escaped provided that the sucker's payoff is bad but not so bad as to be fatal. The key to long-term cooperation is that cooperating in the short run when the other party cheats is costly but the cost is not so great that it prevents a player from recovering over time. If the game is played an indefinite number of times, then it makes sense to experiment by starting out by cooperating. If the other player does not cooperate, he or she can be punished subsequently. Punishment can be achieved by the first player choosing not to cooperate again until and unless the cheater cooperates in the future. Over an indefinite period of repetition, the one-time loss from that initial sucker's payoff becomes trivial—provided it was not game ending—against the possible benefit if the other player subsequently cooperates. Critical to the decision to risk cooperation now is how valuable future payoffs can be if the other player is also induced to cooperate in that player's own longer-term interest. If the future is valuable enough, then each player can credibly declare that his or her subgame perfect strategy will be to make the move the other player made in the immediately previous round of interaction. This strategy is called tit for tat (do unto the other what the other

just did to you—defect if the other defected; cooperate if the other cooperated). If one player defects, then both players will get caught up in a cycle of repeated defection. In that case, even the initial cheater will be worse off in the long run. But if each player cooperates, tit for tat means that a cycle of cooperation can continue indefinitely.

Deciding whether to risk getting the sucker's payoff by cooperating depends on how easy it will be to recover from the costly one-time loss. This is the notion of the shadow of the future that we met earlier. It is a straightforward economic concept. Suppose someone offers to give me \$100 today or that person agrees to put aside some money so that he will give me \$105 in a year's time. How do I decide whether to take the \$100 today or the \$105 in a year? Well, it depends on how much I value money in a year compared to money now; it depends on my shadow of the future. For sure, if my choice were \$100 today or \$100 in a year I would rather have \$100 today. Inflation will erode the value of the \$100 a year from now so it won't buy quite as much as it does now. If I get \$100 now, I could put it in an interest-bearing bank account, say at 4 percent. Then I'll have \$104 in a year, which obviously is worth more to me than getting any amount less than \$104 a year from now but not worth to me as much as getting \$105 in a year. Following this logic, we can say that I discount tomorrow's money relative to today's—in this case by 96 percent ($\$104 \cdot 0.96$ next year = \$100 this year; that is, tomorrow's money is worth to me today only 96 percent of its face value next year).

How much money would I need to get today for it to be worth the same to me as collecting some larger amount in two years or three years or an unknown number of years? To answer this let's do a little algebra. I am going to label the rate at which I discount future money as δ (the Greek lowercase delta is the standard way to denote discounted values), and for this example, I continue to stipulate that $\delta = 0.96$. We know that $(\$104)\delta = \100 (with a little rounding error). Earlier I expressed this as meaning that I value \$100 today the same as \$104 in a year, but I can express this differently. What I really want to know is how much is some benefit today worth to me compared to the same benefit in a year, in two years, in three years, or after an infinite amount of time. In this example, I want to know what \$100 is worth to me in one year, in two years, and so forth. We can say that today \$100 is worth \$100 to me. Getting the \$100 next year is worth 100δ to me today; that is, it is the same as getting \$96 today. Getting \$100 in two years is worth $(100\delta)\delta$

or, more simply $(100\delta^2)$, that is, its value in one year discounted by the same percentage for the next year. I can express this more generally. The value of \$100 given to me in ten years is $100\delta^{10}$, which is equal to \$66.48 to me today. If I specify that t refers to the number of years (0 being today, 1 being in a year, 2 in two years, and so forth out to infinity), then the value I will attach to \$100 given to me in t years time is $\$100\delta^t$.

If I am playing the prisoner's dilemma over and over again and I am cooperating and so is the other player, then my stream of rewards and the other player's stream of rewards (assuming for convenience we both discount benefits at the same rate) if the game goes on forever is the reward payoff $R + \delta R + \delta^2 R + \delta^3 R + \dots + \delta^\infty R$. As it happens, this infinitely repeated summation has a known value: $R[1/(1 - \delta)]$. Returning to our numerical example, in which $R = 100$ and $\delta = 0.96$, the sum of the cumulative benefits of \$100 every year forever is equivalent to being paid \$2,500 today: $100 \cdot (1/1 - 0.96) = 100 \cdot (1/0.04) = \$2,500$.

Okay, I can accumulate a substantial reward through cooperation if the other guy also cooperates but what if he doesn't. What should I do if the other player defects? I could follow the tit-for-tat strategy ("I do to you tomorrow what you did to me today") and hope that the other player is also following tit for tat. Then he will cooperate in the next period and I will defect, or, seeing that he has responded positively to my cooperation, I might even abandon the immediate gains of defection and cooperate. From that point forward, tit for tat would result in our both cooperating forever. But the other player may not be pursuing tit for tat at all. He may simply plan to exploit my cooperative nature at every turn. I can make that costly for him—and perhaps for me too—by following a **grim trigger** strategy. Under this punishment strategy, I declare that if you defect even once—even if you claim it was by accident—I will never cooperate with you again. Under the grim trigger, the player who defected the first time around gets a total payoff equal to $T + P[\delta/(1 - \delta)]$; that is, whatever T is worth right away (say a gain of \$150) and then the next year and each year thereafter the punishment payoff (P , we both defect). Let's say P is worth \$50. So, by cheating on the first move—getting T , the big payoff, when it is most valuable—the other player ends up with the following: $\$150 + 50 \cdot 0.96/(1 - 0.96) = \$150 + 50 \cdot (0.96/0.04) = \$1,350$.

It just didn't pay for that person not to cooperate at the outset. By getting the one-time temptation payoff, they gave up \$1,150 in benefits over the long

run. But imagine that the future benefits are not very important to a leader compared to what they can get today. Suppose the shadow of the future is pretty small, say 0.4 instead of 0.96, then by always cooperating with a cooperative rival the leader's long-term gains would be equal today to getting $\$100/(1 - 0.4) = \167 . If the same leader exploited the other player's cooperative efforts today, knowing that punishment will follow ever after, still in this case the cheater would gain $\$150 + \$50(0.4/(1 - 0.4))$ or $\$150 + 50 \cdot 0.67 = \183 . That's better than patiently awaiting the stream of repeated rewards.

Imagine a democratically elected leader who depends on a large coalition for reelection. If an election is coming up soon, then the promise of future gains is not likely to carry as much weight with the voters as real gains delivered today. On the foreign policy front, this might mean being tough toward the North Korean, Iranian, or Chinese government today even though offering a more cooperative approach might yield bigger returns in the long run. For politicians facing elections, the long run isn't even as far away as the day after the election. After all, they might lose the election. The long run for reelection-oriented leaders is probably not later than the next election. We can see now how a small shadow of the future can induce counterproductive free riding on concessions offered by others or cheating or just plain hawkish behavior when cooperation could yield bigger long-term gains. If leaders worried primarily about the national interest they would seek the long-term gains that could come from joint cooperation, remembering the old adage "you catch more flies with honey than vinegar." If leaders are concerned about their own welfare—or that of their political party—then they probably will not care as much about long-term gains. This is especially true if securing those gains tomorrow is expected to cost them their job today. Those benefits are of potential value to their successor. They may come at a high cost to the current incumbent if achieving long-term gains requires, as in the prisoner's dilemma, risking a short-term cost ($S < R$, $S < T$, $S < P$). If a leader doesn't have the political time to recover from the short-term cost, we should expect the long-run gains will be foregone. In the next chapter, we will see how these sorts of considerations play into the failure to achieve substantial international agreement on how to address climate change.

Why can players be induced to cooperate with one another when they are involved in an indefinitely repeating prisoner's dilemma? Because, if they follow a forgiving strategy, like tit for tat, instead of a grim trigger

punishment strategy and if their shadow of the future is sufficiently large, they can be made better off! The key is to communicate to the other player how you plan to play the game and establish a credible scheme for punishing cheaters. International organizations may be helpful in designing and implementing punishment strategies but even without an international organization, it is possible for mutual self-interest to be effective in designing a strategy that leads to cooperation between states engaged in an indefinitely repeated prisoner's dilemma. It just requires a simple mechanism such as tit for tat (Axelrod 1984) that commits a player to punish bad behavior but to be quick to forgive bad behavior if the cheater begins to cooperate. Under tit for tat if one player defects in any round of play, then the other player will defect in the next round. In this way, the second player punishes the first for cheating. If one actor cooperates in any round, then the other will cooperate in the next round. This is the way each can reward the other for cooperating rather than seizing the chance to exploit cooperation for a short-term gain. Such a cooperative move by either player would not be rational if the game were played a known number of times, but it is rational when the game is played indefinitely with a large shadow of the future so that there is a big cumulative impact on each decision maker's welfare from cooperating. Tit for tat is a "nice" strategy (Axelrod 1984). It is quick to forgive and quick to punish; it is also easy for each decision maker to observe the emerging pattern of play.

However, tit for tat cannot succeed in making cooperation an equilibrium strategy if the repetitions of the prisoner's dilemma are for a known number of times. In fact, in such a situation, the dilemma cannot be escaped. The reason is simple. Suppose you and I were to play this game five times. We might each promise to cooperate at the outset. Promises, however, are carried out only if they are in the interest of those making the promise. Now, it is straightforward for me to calculate that I cannot punish you if you defect the fifth time we play the game because there will not be a sixth repetition. This is true whether I am playing the forgiving tit-for-tat strategy or even the grim trigger simply because I know the game is over after five repetitions. Of course, you realize that the same holds for me. So we each have an incentive to defect in the fifth round because at that point the game is not going to be repeated, and there can be no punishment for defecting and no time to recover from a sucker's outcome. That means that the fourth round of play really seems like the last part of the repeated game. As such, the fourth round

really is now like the last repetition because I will have no subsequent opportunity to punish you for defecting. Therefore, because each of us will defect in the fifth and fourth round, round three will become like the last repetition and so on down to round one. When the number of repetitions are known, the chance to cooperate unravels, pushing us to defect even in round one because there will be no opportunity to recover from the sucker's payoff in the future by avoiding the punishment payoff and obtaining the reward payoff. This unraveling problem can be very serious but, as we should have come to expect, there may also be ways to correct this problem.

The grim trigger might seem appealing even if it does not solve the unraveling problem, but we should recognize that the grim trigger—tough guy—approach has an important limitation. While I declare I will never cooperate with you again if you ever cheat, there may be strong incentives for me to water down that punishment strategy in practice. After all, you might indicate after suffering the costs of the grim trigger punishment strategy that you have learned your lesson and so you might switch to cooperative behavior, hoping to signal to me that we can improve our mutual welfare through cooperation. Since I too take a loss by punishing you, I have an incentive to switch, as suggested by tit for tat, rather than continue with the grim trigger commitment of ongoing punishment. If you anticipate that I really am not committed to the grim trigger, however, then you have an incentive to cheat just enough to gain an advantage and not so much that I stick to continually punishing you. In the parlance of economic theorizing, contracts—like the promise of a grim trigger punishment strategy—are not renegotiation proof. Seeing that you learned your lesson and wanting to maximize my own gains, we each have an incentive to renegotiate our prior declaration that even one episode of cheating will be met with an indefinite future of punishment.

Flexibility Can Be a Virtue

That punishment strategies can be renegotiated is a good thing. When I observe that you have cheated, there are at least three possible explanations: (1) you are a cheater; (2) you are honest but miscalculated what the right action was and did not intend to cheat; (3) you acted honestly and abided by our agreement but I misinterpreted your action as cheating. Rather than scuttle the long-term gains from cooperation, I might want to allow some

flexibility so that I tolerate some amount of cheating. This has beneficial effects regardless of the explanation for my belief that you cheated. Of course, if you did not cheat or thought you didn't then invoking a grim trigger (or even tit for tat) could needlessly plunge us into an ongoing cycle of punishment. But even if you really and truly cheated, there can be advantages to allowing some wiggle room before invoking a stiff punishment strategy like a grim trigger. Flexibility may allow you, for instance, to deal with short-term domestic political pressures while, over the longer run adhering to our mutually beneficial agreement (Rosendorff and Milner 2001; Gilligan and Johns 2011). The idea is to allow an escape clause that comes at a tolerable price, one that is neither too high nor too low. Rosendorff and Milner (2001, 830) define an escape clause as "any provision of an international agreement that allows a country to suspend the [commitments] it previously negotiated without violating or abrogating the terms of the agreement." Perhaps a fine is imposed in exchange for a digression from the agreement's terms, as is true in many trade agreements, or perhaps some compensatory behavior is required (as in opening one's country to international inspectors if there is evidence of a violation, for instance, of an arms control agreement). By imposing some form of cost to accompany flexibility, the well-behaved members of the international organization reduce the prospective impact of a cheater's use of a mixed strategy in which they cheat sometimes and adhere to the rules other times. By levying a cost, the point of indifference between cheating and abiding by the rules is shifted in favor of obeying the agreed-upon rules, leaving just enough flexibility to cover circumstances in which the cost of not having an escape clause would otherwise lead to scuttling of the agreement. In that way, the magnitude of the cost for invoking the escape clause measures the flexibility designed into the agreement.

Critical to the successful use of flexibility is access to adequate information to work out when cheating has probably occurred and to assess the fine. The key here is getting the right information, which means that mechanisms have been designed to enhance the chances of having the right information. In fact, many such mechanisms exist. Their origins can be traced back at least to medieval Europe when trade became consequential over relatively long distances or even to the Talmud, which provides interpretations of the mandates in the Old Testament (Milgrom et al. 1990). Let's see how organizations can be used to assemble and disseminate information that facilitates punishment when a signatory exceeds the escape

clause flexibility of their international agreement.

Information, Reputation, and the Value Added by Institutions

We have seen that bilateral agreements can reduce the risk of cheating or free riding by making the cost-benefit calculation profitable for cooperation. This can work great when only two parties are involved, but many international transactions involve lots of parties interacting over time and over diverse issues rather than involving simple bilateral exchanges. Some of these transactions are multilateral but others involve many bilateral interactions. Trade agreements are sometimes multilateral and sometimes bilateral while foreign aid agreements are occasionally multilateral and more often bilateral; the same holds for international banking, global warming treaties, international or bilateral sporting events, and just about every other arena. We focus for now on series of bilateral agreements before turning to efforts to forge multilateral international agreements.

Trade provides an excellent example of a problem inherent in many bilateral agreements or contracts. A buyer and seller may interact with each other infrequently or even only once. But the seller must be selling to many other people, and the buyer, being a consumer of goods, must also buy from many vendors. If, for instance, I order a product from an online business based outside the United States where I live it could be extremely difficult for me to ensure that my purchase will actually be delivered as promised after I pay for it. If it were not for facilitating international business organizations like American Express, Visa, or MasterCard, I might not have recourse if the seller cheated. But with these organizations carefully monitoring transactions to make sure sellers fulfill their promises or don't get paid, I can be confident that my transaction will almost certainly prove successful. Likewise, sellers want assurance that they will get paid. I might promise to pay them once I receive delivery, but it would be hard for them to recover their goods if I am far away, outside the reach of their legal system. So they pay the cost charged by credit card companies in exchange for protection against the possibility of my cheating. The existence of these intermediary credit card organizations serves a useful information purpose that increases the odds that both parties to infrequent business dealings with each other nevertheless honor their respective promises.

The credit card example carries within it a set of important general principles about how third-party organizations can improve the odds of compliance even when compliance with an agreement is costly. Let's probe the key principles to see how this works. A problem that can easily arise, as we have seen, is that if there are many bilateral exchanges, each occurring infrequently, it may be difficult to achieve the long stream of benefits that offset short-term gains from shirking or outright cheating on individual bilateral deals. One solution to such poor behavior is the imposition of a reputational cost. Reputation may be important in convincing others to trade with a party or otherwise engage in costly agreements. If I cheat with regularity there is a danger word will get out and no one will want to work with me. That is one reason websites and magazines like *Consumer Reports* have emerged that neither sell nor buy products; they just rate the reliability of different sellers, creating all of us with ready access to reputational information. In a sense, our earlier analysis of domestic audience costs was focused just on this sort of reputational solution. Leaders, recall, were more likely to carry out their threats if they faced high audience costs. This is just an example of the *crying wolf syndrome*. Anyone who makes threats without ever carrying them out is bound to get a reputation for crying wolf baselessly, so they are unlikely to be heeded even when they mean what they say. Knowing that, leaders are likely to cry wolf a bit more often than the truth warrants (exercising some political flexibility) but not so often that when there is real danger no one will listen to them.

Sometimes interactions are too far apart in time or space or over sufficiently different topics that little information is available to inform others of whether the government in question has behaved well or badly in its bilateral dealings; whether it cries wolf selectively or carelessly. This, for instance, is a problem in OPEC, the organization of the petroleum exporting countries. Members of OPEC want to coordinate in increasing the price of oil by keeping supply down. That is why the organization exists. As the collective action problem has taught us, however, some members (such as Nigeria) inevitably cheat by producing more than their quota in order to reap the economic advantages that follow from gaining more market share. As it turns out, cheaters in OPEC rarely incur punishment. Despite threats to the contrary, OPEC does not have a serious mechanism to punish those who produce beyond their quota. In the absence of serious means of detecting or fining cheating, OPEC looks like an excessively flexible organization. Of

course, it is difficult to follow oil from the wellhead to a pipeline to a tanker and then to the marketplace. OPEC does not have monitors—by design—who can go to Nigeria and count how many barrels are produced or sold each day. Under those circumstances, one might hope that reputational costs would induce Nigeria to abide by its quota but since the Nigerian government does not seem overly concerned about its international reputation on this dimension, reputational losses are not sufficient to induce rule-abiding behavior. Imagine, however, that OPEC members decided that they need a way to monitor compliance and punish cheating. How might this goal be achieved?



Nigeria's delegation head and chairman of the Organization of the Petroleum Exporting Countries (OPEC), Goni Musa Sheikh (left), Iranian caretaker Oil Minister Mohammad Aliabadi (center) and Secretary General of OPEC Abdalla Salem el-Badri (right), before the start of the 159th OPEC meeting in Vienna, Austria, on June 8, 2011. Reports state that oil ministers from OPEC sent mixed messages on whether they would increase their oil production quotas to control high prices. Coordinating

production among member states is difficult in the best of times. With Libya, a member state, in turmoil at the time of this meeting, coordination became even more difficult.

Suppose the OPEC nations decided that each would pay an independent arbiter to collect information, such as who sold how much oil to whom. The arbiter would get this information from oil merchants. In exchange, each oil merchant, for a modest fee, would be able to appeal to the arbiter to find out whether this or that seller was cheating. The arbiter would know because s/he would be receiving information about all oil deals. Of course, supplying such information would be costly to each oil merchant but failure to provide such information would also be reported by the arbiter. S/he might, for instance, be able to discern that there was an inconsistency between oil demand, oil prices, and reported supply transactions based on the information s/he had. Without going into the modeling details, it is not hard to see that if the cost is low enough relative to the benefit of good information, then each merchant can be expected to provide the information or face the real risk of boycott by other buyers or sellers. Indeed, this idea of a third-party information buyer and seller is just an extension of the repeated prisoner's dilemma and its implications are well developed (Milgrom et al. 1990).

Think about an organization like the Better Business Bureau (BBB). Its function is very close to the function of the hypothetical arbiter—the Law Merchant—discussed as a means (not used by OPEC) to enforce quotas within OPEC. Law merchants arose in Europe during the high middle ages when textiles and many other goods were traded at fairs like the Champagne Fair in France. Individual buyers and sellers lived far apart and interacted with one another infrequently. The problem of delivery and payment, as discussed previously in the credit card example, was a big impediment to trade. The role of a law merchant was simply to know whether a given buyer or seller in a long-distance trade had previously cheated. In the same way, the BBB reports how many complaints it received about a merchant. It costs each complainer a little bit to assemble the necessary information but in return, each complainer and the rest of us as well, benefit because merchants are incentivized to comply with their agreements. The risk to them of being caught cheating coupled with the cost of being excluded from future transactions makes adherence to contracts attractive to each merchant. As we have seen, credit card companies and websites rating businesses serve a

similar purpose.

The key to organizations like those that oversee international business or government-to-government transactions is that they accumulate and disseminate information about bad conduct to those who pay for it. These organizations, in essence, supply a club good: those who pay for information can learn with whom to avoid bilateral deals and everyone else who subscribes to the organization has nonrival access to that same information. International courts provide many of the functions just described. Their judgments become part of the public record so that even governments not involved in a dispute can know whether this or that country's government has a record of reneging on its agreements. Knowing that such information becomes common knowledge, the urge to cheat is diminished by the increased cost associated with it, making long-term honest, cooperative behavior more attractive. In that way international courts, international arbiters such as the WTO and bilateral prisoners of war agreements (Morrow 1998, 2002), to mention but a few, diminish the risk of cheating even when cheating would be profitable in the short run.

MULTILATERAL ORGANIZATIONS AND COOPERATION

We have seen how bilateral arrangements, even when no two pairs participate in many transactions with each other, can solve the difficulties associated with efforts at collective action. By making the number of participants small, information availability adequate, and the cost-benefit ratio right, international organizations can contribute to an escape from free riding and cheating. But some problems just do not seem amenable to serial bilateral solutions. Organizations like the United Nations exist, for instance, to design mechanisms to protect the weak from the predatory inclinations of the strong. But often the bigger an organization's membership the less good it is at achieving its purpose.

Inclusiveness: Trade-Offs between Regime Efficiency and Effectiveness

How inclusive should an international regime be? Some international

organizations, such as the United Nations, are extraordinarily inclusive; almost every state in the world is a member of the United Nations, although the Republic of China on Taiwan, for instance, is not because the People's Republic of China claims it as a breakaway province. Other organizations, such as the North American Free Trade Agreement (NAFTA), have an exclusive membership consisting of very few participants (NAFTA includes Canada, Mexico and the United States). Still others fall everywhere and anywhere in between. The WTO is very large; OPEC is of moderate size, as are the North Atlantic Treaty Organization (NATO), the Organization of American States, and the European Union, all of which are significantly larger than NAFTA or some other regional free-trade agreements like Latin America's Mercosur.

Larger organizations leave less leeway for states to avoid punishment if they are caught cheating, but they also make it more difficult to establish rules that effectively alter behavior than do smaller organizations. In general, organizations achieve high levels of compliance when their behavioral requirements are shallow (Downs et al. 1996). Larger organizations are more likely to impose shallow requirements on members than are smaller, more selective organizations. It is easy to comply with rules that do not demand a costly change in behavior, and it is difficult to get many states to agree to rules that require significant and costly changes in behavior. Likewise, we generally can expect that decision rules are easier to satisfy when decisions are less likely to be enforced than when they are more likely to be enforced or when, even with enforcement, the decisions are not particularly effective. Let us consider each of these factors in turn.

The inclusiveness or exclusiveness of an international organization is a crucial design issue. As Ethan Bueno de Mesquita and Matthew Stephenson (2006) show, informal networks or formal organizations bound by costly contract rules have an optimal size. If they are too large, the costs of monitoring and punishing deviant behavior become large as the expectation of deviant behavior increases with the variability in preferences. If they are too small, then there are few gains from trade or economies of scale in coordinating cooperative behavior, so the benefits are inadequate to sustain cooperation. What constitutes the optimal size of an organization depends in an identifiable way on the trade-offs between the costs, benefits, and risks created by the organization.

Consider the implications for decision making that arise as the size of the

decision-making body increases. An international organization with a small membership, such as NAFTA, limits participation to governments or private organizations with little diversity in their preferences for organizational policy. As more members are added to an organization, the diversity that we can expect in policy preferences increases. Indeed, as an organization becomes larger, there is a real risk that new members with preferences far from those of the founding members will block progress toward cooperation that might more easily have been achieved if the organization's membership had stayed small (Bueno de Mesquita and Stephenson 2006). Larger membership, then, diminishes the chances that the participants will reach agreement on rules and regulations to promote meaningful steps toward international cooperation. A solution to this watering-down problem is for organizations to start small, require new members to adhere to their rules as a condition of joining, require that new members are voted in by a super majority of existing members, and require a supermajority to change rules, including the mechanisms for monitoring and punishing poor behavior (Downs et al. 1998). In that way, the original members have extra weight in avoiding or limiting drift downward to the lowest common denominator, improving the odds that the organization will do what its original signatories hoped it would do.

Consider the exclusion of Britain from the original European Coal and Steel Agreement, formed in the wake of World War II, that served as the forerunner to the European Union. Britain was opposed to virtually every important decision made by the European Coal and Steel Community (ECSC) and, later, by the European Community during the first twenty or so years of the existence of these organizations. Had Britain been brought in as a member at the outset in 1951, it is likely that the British—because of domestic political concerns about protecting their coal and steel industries—would have disrupted progress toward European integration. It is difficult to imagine that the 1957 Treaty of Rome, signed by Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, could have gained British approval. The Treaty of Rome propelled European integration forward, adding the European Atomic Energy Community (Euratom) and the European Economic Community (EEC) to the ECSC. Furthermore, the treaty explicitly promoted the idea of closer integration across European states and singled out national exchange rate policies as a matter to be worked on, presumably with an eye toward the creation of a single currency (as occurred finally in 2002).

The European Community required a supermajority to approve its expansion and even today the much-expanded European Union (successor to the European Community) maintains a weighted voting scheme. Despite the cautious expansion rules, after Britain finally joined the European Community in 1973, it acted against the policy wishes of a significant number of original member states and probably diminished the effectiveness of the organization on important decisions, especially those regarding currency integration. Indeed, currency integration was a major issue that split the British Conservative Party in the early 1990s and contributed to the party's decision to oust Prime Minister Margaret Thatcher—who opposed British adoption of the euro—in favor of John Major. Even today, Britain maintains its own currency—the pound sterling—rather than adopting the euro, a decision that in hindsight looks remarkably prudent and farsighted as it may have helped insulate the British somewhat from the eurozone economic crisis. But British rejection of the euro, a central integrative policy of the European Union, has its broader European downside since Britain's rejection also limited the number of strong voices within the European Union that were insistent on compliant fiscal behavior for the EU member states.

Alternative Views of Inclusiveness

Whether larger or smaller organizations are preferable is openly debated. A constructivist perspective differs sharply from the realist view that a large membership in an organization reduces effectiveness. Realists maintain that inclusiveness waters down decisions by allowing too much diversity in policy preferences. Since, from the realist perspective, states act on their national interests, the more states that are included in an organization, the less likely it is that the organization can reflect the national interests of its member states. Constructivists, in contrast, maintain that cooperation is stimulated by participation in international organizations. From this perspective, inclusiveness is a highly desirable property. Constructivism suggests that preferences are not exogenous to the situation in which decision makers find themselves; rather, preferences are shaped and reshaped by participation in and deliberation with alternative viewpoints. Alexander Wendt (1994), for instance, suggests that members of an international organization learn to see themselves as others see them through the process of interaction such as that promoted by an inclusive international organization. The effect of such

interactions on self-perception is strongest in situations involving dependence on the views of other actors, again as can be true in large international organizations. From this point of view, organizations such as the UN General Assembly might be expected to be especially effective in fostering cooperation by exposing representatives from so many states to the perspectives of others. Constructivists, like realists and many other “ists,” muster case studies to support their point of view. In [chapter 9](#), when we investigate human rights, we will see that significant evidence now suggests that their central hypotheses about the salutary affects of international agreements is misplaced. That, however, is for later.

At first blush, we might infer that the strategic, selectorate perspective favors inclusive organizations. As we have seen earlier, systems that rely on a large coalition drawn from a large selectorate tend to produce more public welfare. In the international context, it is sometimes true that cooperation among member states is a public good for all the participants in an international organization. But that claim assumes that members of an organization agree on which policies contribute public goods. That is, it assumes that the preferences of the organization’s median voter are the goals that national leaders must fulfill even when their own coalition’s median-voter preferences differ. Obviously when the domestic winning coalition’s preferences deviate from those in the organization’s winning coalition and the domestic coalition is large, a tension exists that will undermine the organization’s performance. Survival-oriented leaders cannot afford to follow the coalitional requirements of an organization when they contradict their domestic coalitional requirements.

On balance, then, the strategic perspective favors inclusiveness of membership (the selectorate) *only if* the rules also ensure inclusiveness in the coalition of members whose support is needed to keep the individual member-state’s desired organizational leadership in office (the winning coalition), where the organizational leadership’s choices may serve as public goods for the domestic coalition of some member states or may serve to exacerbate problems by doling out private goods to some, by definition excluding others.

The United Nations: Shallow Decisions or Inaction

The United Nations is a good example of many of the design problems that

can befall an all-inclusive organization. At the level of the General Assembly, it is a relatively large selectorate, large coalition organization. Currently there are 192 states that are members of the General Assembly. Votes on resolutions in the General Assembly require a majority vote, making the ratio of coalition to selectorate quite large. The secretary-general of the United Nations, as its principal advocate, might point to these resolutions as demonstrations of the UN ability to form international policy regarding human rights, the environment, security issues, or just about anything else. Yet the General Assembly is not endowed with the means to enforce its resolutions, so achieving compliance could be a difficult problem in the case of resolutions that demand significant changes in behavior by member states. As a result, we can expect that most resolutions passed by the General Assembly are shallow, are passed by a large margin, and experience a high degree of compliance. If a resolution is deep, then it is likely to contain important policy statements that have no teeth behind them to ensure compliance. These claims imply that the design of rules for passing and enforcing (or not enforcing) UN General Assembly resolutions is endogenous. The rules are strategically chosen, taking into account the depth of the issues to which they are likely to be applied. The rules are likely to be designed to ensure a large majority in favor of resolutions, which, in turn, are likely to be shallow or vague.

The decision rules in the UN Security Council (UNSC) are much more demanding than those used by the General Assembly. The Charter of the United Nations gives the UNSC primary responsibility for maintaining international peace and security. It therefore has the right to order economic sanctions, send peacekeepers, or take other actions to protect or restore peace. That makes the UNSC a potentially powerful body. As such, we should not be surprised to discover that it is an oligarchy on which the secretary-general is wholly dependent. The UNSC, after all, is made up of five permanent members (Britain, China, France, Russia, and the United States), each of which has a veto over any issue that comes before it. The UNSC is also made up of ten non-permanent members voted on by their regional country group—each for a two-year term. These members do not have a veto. A UNSC decision requires a majority of the members not abstaining. Furthermore, if even a single permanent member casts a negative vote that is sufficient to defeat anything before the UNSC even if the remaining 14 members voted in favor. Thus, the United Nations has characteristics similar to those of an

autocracy, in which many have a chance to join a winning coalition (any 10 out of 187 members of the General Assembly, excluding the five permanent members, can become members of the UNSC), but a small group is essential (five) and is guaranteed a primary role in choosing leaders and, therefore, policies. In such an environment, the organization is likely to be ineffective in promoting policies that are contrary to the interests of the oligarchs who occupy a privileged position.

The voting rules in the UNSC have two consequences. Often to get the five permanent members to agree on action, the action must be shallow, declaring displeasure for instance with some member-state's behavior while failing to implement costly consequences if the behavior remains unchanged. For instance, in the face of massive military assaults by the Syrian government against its own citizens, most demonstrating peacefully for regime change, the UNSC was able to agree only on weak language calling for peace but unable to pass a serious resolution calling for regime change or imposing international sanctions. Russia and China vetoed the proposed stronger resolution. Russia was at the time probably the largest arms seller to Syria's Assad government. China had entered into contracts with Iran, a close ally of Assad's regime, for cheap oil. With so much at stake for some permanent members one could not reasonably expect anything other than resolutions made up of empty words. But when UNSC decisions are not shallow, they can be effective.

If the permanent members are genuinely behind a UN resolution and the resolution is not the product of a substantial compromise, then compliance with the resolution is likely and the resolution itself is likely to be effective. Of course, in such cases, the decision of the council is in the interest of the P5 (the permanent members); otherwise, it would be vetoed. This suggests that the UNSC can effectively perform a coordination/facilitation function but that it is unlikely to redefine the policies of the permanent members. In that sense, the organization itself has little impact on policy other than to make it easier for five governments to have a venue for debate and discussion.

We have seen that the decision rules in different parts of the United Nations are different and that they almost certainly represent negotiated deals among the members. That the rules are endogenous seems a certainty. That this means they cannot influence future behavior is less clear. We will probe the strengths and pitfalls of different organizational rules more deeply in the next chapter when we zoom in on global warming.

SUMMARY

The central theme of this chapter has been that international rules, regulations, and organizations may help induce cooperative behavior, but they cannot be counted on to do so. International organizations almost inevitably face collective action problems arising out of the tension between solving distributional inequities, information asymmetries, and the benefits from coordination. Excludability and rivalry over the consumption of benefits provide incentives for member-states to cheat on their agreements or free ride on the efforts of others. Rules, regulations, and structure are likely to be the product of strategic maneuvering intended to address these difficulties. As such, international organizations are more likely to reflect national or individual interests as defined at a given moment than they are to be the factor that shapes national or individual interests. Still, organizations are **sticky**. Once created, they are hard to get rid of, so they can help **tie the hands** of leaders or increase the costs of deviant behavior.

A high level of compliance with an organization's rules and regulations should not be mistaken for evidence that the organization is effective in altering behavior. The level of compliance is likely to be endogenous. Organizations are unlikely to pass rules that members are unwilling to follow unless the organization does not bother with effective means to monitor compliance and punish deviant behavior. As a consequence, many organizational decisions are shallow, making compliance easy. Decisions that would effectively alter behavior undoubtedly exist, but they may be relatively rare.

Compliance may be seen as a way to establish a national reputation. A reputation for cooperative behavior may make it easier for a state to reach cooperative arrangements with other states in the future. However, reputational concerns often are insufficient to promote international cooperation. Organizations, by acting as information disseminators, can help overcome incentives to free ride on promises or cheat. The biggest difficulty in designing successful international organizations is balancing their inclusiveness to reduce the collective action problem and not restricting their membership so much that they cannot meaningfully influence the policy problems they are designed to solve.

KEY TERMS

club goods
collective action problem
common-pool resources
deep agreements
exchange rates
excludable
flexibility
free riding
greenhouse gases
grim trigger
negative externality
nonexcludable
nonrival goods
positive externality
property rights
rival goods
shadow of the future
shallow agreements
sticky
tie the hands
tit for tat
tragedy of the commons

Answers:

1. a. Global organizations generally seek out coordination and cooperation by minimizing their distributional consequences. Hence, it is easy to comply with their terms because they ask members to do very little that alters their existing behavior.
2. b. The surest way to achieve a global or nearly global agreement is to reduce the terms to the least everyone can agree to. This can be

accomplished by asking members to do little or by avoiding effective means of monitoring cheaters and punishing them.

3. b. Flexibility gives governments an opportunity to deviate from what they have agreed to for a while as they work to overcome some—usually domestic—impediment. Flexibility, then, improves the odds that members will alter their behavior for the better much of the time if the organization has a built-in escape valve for difficult times.
4. The UN Security Council (UNSC) relies on there being no disagreement among its five permanent members, making them an oligarchy. The General Assembly reminds us that the United Nations includes virtually every national government as a member. Therefore, the United Nations is a small coalition, large selectorate political system with all the characteristics that implies.

8

Global Warming Designing a Solution



Protestors bury their heads in the sand with flags illustrating different countries during a climate change summit held in the city of Durban, South Africa, on December 2, 2011. At a time of deep concern over global warming, a group of scientists, philosophers, and legal scholars examined whether human intervention could artificially cool the earth and what would happen if it did. While there is broad scientific agreement on the dangers of global warming, few have demonstrated a sincere willingness to adopt painful, costly changes in their behavior, preferring, instead, to bury their heads in the sand and hope future leaders will address the problem.

OVERVIEW

- Despite a broad consensus that global warming is a significant

long-term threat to substantial parts of the earth, little progress has been made in reducing greenhouse gas emissions, a widely agreed source of global warming.

- International agreements, such as those reached in Kyoto (1997) or Copenhagen (2009), have proven to be a great disappointment.
- The evidence suggests that it is politically expedient but not environmentally or economically accurate to conclude that global problems like global warming can only be addressed through global agreements.
- Addressing global warming through global solutions provides political cover for leaders who face high domestic political costs if they embark on serious policies to reduce their domestic emissions.
- The cost of emissions reduction can be made politically acceptable through smaller, bilateral agreements on emissions that balance costs and benefits to all parties.

Assumptions Check

1. Approximately 191 out of 192 countries eventually signed the Kyoto Protocol designed to limit greenhouse gas emissions, with emissions in 1990 as the benchmark against which success was to be measured. With so many signatories, should we expect that these emissions have _____.
 - a. gone down
 - b. gone up
 - c. stayed the same
2. How likely is India (a major greenhouse gas emitter) or China (the world's number one emitter) to slow down their economic growth in order to help clean up the atmosphere that was polluted by the United States and Europe during nearly two centuries of industrialization?
 - a. China and India's governments are sufficiently concerned about the global impact of their economic growth policies that they will agree to cut back emissions even if it means slowing growth.

- b. China and India profess concern about global warming but are unwilling to reduce their own growth and its political benefits at home to reduce their emissions significantly.
 - c. China and India believe the bulk of the economic and political costs for reducing global warming going forward must be borne by those who industrialized earlier, such as Britain, much of continental Europe, and the United States.
3. How much are you willing to pay out of your personal pocket, through higher food prices (fertilizer being a major source of carbon dioxide and other emissions), higher gasoline prices, and slower growth, probably combined with fewer job opportunities, in order to subsidize greenhouse gases produced in China or India?
- a. Almost nothing. We should tax businesses to pay to reduce greenhouse gas emissions, transferring that tax revenue to China, India, and elsewhere to reduce their emissions.
 - b. Almost nothing. The cost should be borne by the wealthy who can best afford to pay higher taxes to diminish global warming by subsidizing India, China, and others so that they use green energy.
 - c. A great deal. Global warming is a threat to everyone so we all should pitch in about the same, say through higher food and fuel taxes, to help India, China, and others reduce emissions.
 - d. A great deal. We should each contribute a significant percentage of our income (say tithing at 10 percent) to alleviate global warming by helping to subsidize reductions in India, China, and elsewhere.
4. Do you have a sense from these questions why it is so difficult to influence policy toward global warming?
- a. Yes, I see that even if everyone agrees to reduce emissions, they do not agree on how best to do it or who should pay for it.
 - b. No, I see that everyone needs to pitch in to reduce emissions, and I believe no one will free ride on such an important matter.

See end of chapter for answers.

lobal warming is certainly among the bigger issues confronting the international community. It is also an issue over which vast amounts of effort have been spent trying to design an effective international agreement with little success. Environmentalists call for dramatic decreases in the use of fossil fuels that pour carbon dioxide and other greenhouse gases into the atmosphere. Those favoring economic growth and jobs creation debate whether greater oil and natural gas exploration or cleaner coal burning—all fossil fuels—is a central part of the solution to slow growth and jobs creation or whether a solution lies primarily in the pursuit of alternative fuels like solar energy and wind energy. Economists associated with different points of view reach wildly different conclusions about how much it would cost to reduce greenhouse emissions to levels proposed by various governments, environmental groups, businesses, and others although among sober, nonpartisan economists there is general agreement that the costs, though high, are manageable. Global warming is a classic problem involving big trade-offs between international cooperation and the country-by-country domestic distribution of costs and benefits. Pretty much everyone agrees *in principle* on the need for action, but everyone most assuredly does not agree *in practice* over what is to be done.

In this chapter, we will apply the lessons learned earlier to see why global warming has not elicited a meaningful global response, why a global approach may not be desirable, and why success may require small-group or even unilateral action. The chapter ends with a proposed strategy to make real progress in global warming by substituting the feasible for the perfect. Many other approaches can also advance success so the suggested solution is illustrative of how to think differently about the problem and solution to global warming; it is not the only way (Urpelainen 2009). In global warming, we have an issue for which hard, careful strategic thinking is more important than personal commitment, enthusiasm, or outrage. Understanding why decision makers do what they do goes a long way toward helping us understand what the political impediments are to greater progress on global climate change and may also help point the way to practical solutions.

Although poorly and confusingly named, global warming really is a question of increased **variance**—increased uncertainty—about weather developments. Some places are clearly getting warmer and others, whether warming or not, appear to be experiencing greater extremes in weather than was previously true. That can mean more beautiful, sunny days, and it can

and also does mean more tornadoes, hurricanes, and drought. Warmer weather is not all bad if you happen to live in places like Minnesota, North Dakota, Alberta, Manitoba, Russia, or Mongolia. It is probably pretty terrible if you live in central Africa, central South America, or Hawaii. And it most assuredly is a great worry if you live in a low-lying area near a great body of water, especially an ocean. For people on South Pacific islands, or on the East or West Coast of the United States, rising sea levels associated with global warming could translate into a massive disaster. A well-done 2009 political novel, *Ultimatum*, by Matthew Glass paints an interesting picture of the difficult negotiations that could arise between, in the novel's case, the United States and China over managing greenhouse gas emissions in the future. It appreciates, in ways too few international relations texts do, that domestic politics are likely to play a critical role in addressing this global problem. We will, of course, be attentive to the lead role that domestic politics plays in advancing proposed solutions, rejecting others, and maneuvering all the time to respond to climate change in politically expedient ways that address near-term political problems, shifting, as we have learned to expect, the tough decisions to some other decision maker's watch.

GLOBAL WARMING: A PROBLEM OF COLLECTIVE ACTION

A few diehards question whether global warming is taking place at all. Some of their objections are ideological, some are serious, and some reflect the unfortunate choice of phrase to describe global environmental changes. One problem in settling the scientific and political debate is that detailed weather information has only been gathered for a couple of hundred years. That means that we know that recent swings in the weather have been much bigger than the records of the past couple of hundred years—but not thousand years—suggest is normal. While 200 years seems like a long time to us, in the earth's geological time, it is very short indeed. It is possible, for instance, that current increases in temperature simply reflect where we are in the earth's **climate cycle**. When data first started to be collected on weather in the United States, much of the United States was experiencing seemingly unusually cold weather. It snowed on the East Coast in July of 1816, known as the year without a summer. Maybe we started to measure temperatures

against that low point, so we have a distorted statistical view of what is normal. We have spotty longer-term weather estimates. Emmanuel Leroy Ladurie (1967), for instance, used data on the date of the grape harvest in French villages for about 1,000 years to evaluate how warm or cold and wet or dry the weather had been. He also used tree ring analysis for the Americas (Europe has no old growth trees—they cut them down for fuel in the Middle Ages) to evaluate temperature and rainfall variations over equally long stretches of time. But in geological terms, even data for a thousand years represents a short time series. With such limited data, inferences must be drawn with significant care and caution.

Some argue that the observed warming of average temperatures is part of a natural earth climatic cycle. Others contend it is the product of human activity. These arguments are sometimes invoked to justify doing nothing about rising temperatures. If—as some contend—temperature change is the product of natural cycles in the earth's climate, then there probably isn't anything to be done. Those who make this argument point to the fact that the earth went through ice ages and periods of high temperatures long before industrial activity could have affected temperatures or before there were enough people in the world to make much difference. Some research, like Ladurie's, that predates the politicized debate over global warming, provides some important evidence for this point of view. But most scientists agree that in addition to cycles in the earth's temperature, there are also human factors at work contributing to a buildup of carbon dioxide and other harmful gases in the atmosphere. The buildup of carbon dioxide and other greenhouse gases help elevate temperatures by trapping heat that in the past escaped into space. The loss of trees, especially in urban areas, means there are fewer plants to absorb carbon dioxide and therefore less absorption, which is a natural consequence of photosynthesis. And among the vast majority of careful climate scientists, there is also broad agreement that if left uncorrected then sea levels will rise, many island nations and coastal areas will be submerged in the not-too-distant future, other areas will experience severe drought, and many other potentially disastrous changes will arise.

Just as there is broad agreement that the earth's temperature is rising and that left unabated this will have severe consequences, there is also broad agreement that actions are required to slow down the growth and gradually diminish the quantity of greenhouse gas emissions. For obvious reasons, it is commonplace to observe that global warming is a global problem and to

argue that, *therefore*, it requires a global solution. The word *therefore*, however, does not follow logically from the premise that the problem is global and so we need to be careful to work out whether the prescription—a global solution—is warranted by the existence of the global problem.

Global warming is just about a perfect example of the pathologies we discussed in [chapter 7](#). Since the earth's atmosphere circulates, excessive greenhouse gas emissions in one place pretty quickly spread all over the globe. Emissions in China, for instance, are estimated to take only a few days to reach the United States (Seinfeld 2012), www.nytimes.com/2012/06/09/opinion/a-chinese-export-we-dont-need-bad-air.html?ref=greenhousegasemissions), a clear case of emissions as a global negative **externality** in the form of reduced air quality. The negative externalities are demonstrably significant. Emitters and nonemitters alike experience the consequences of global climate change. We are all in it together as long as we all have no place beyond this earth to run to and no place to hide. Despite all being in it together, we will see that the necessity of a global solution does not follow from the fact that there is a global problem. Indeed, there is a good case to be made that pursuit of a global solution may itself be a primary impediment to addressing greenhouse gas emissions in a meaningful way. It may be a useful bit of political **rhetoric** that provides cover for cynical, re-(s)election-conscious politicians to avoid fixes they could implement unilaterally and yet to the benefit of all.

The problem in solving global warming is not denial although plenty of that is going around. The problem is generic and is closely tied to the issues associated with the uneven distribution of costs and benefits from greenhouse gas emissions and their abatement. In addition to distribution problems, efforts to forge a global solution suffer from the now-familiar monitoring and enforcement problems that arise in shallow international agreements. Shallow agreements are a natural way for the international community to declare political success in its coordination efforts even as it looks the other way while the collective action problem runs rampant. Collective action is exactly what people call for when they say that global problems, like greenhouse gas emissions, require global solutions. The call for a global solution is heard nearly everywhere. It is the shared clarion call of environmentalists, scientists, and politicians. But hidden in that call are the deep problems we confronted in [chapter 7](#).

Let's see some important statements made before the UN General

Assembly in September 2009 by President Barack Obama and China's president Hu Jintao, the leaders of the world's number two and number one greenhouse gas emitting countries. The date of these statements is important because both were made just three months before the Copenhagen summit, officially known as the 2009 United Nations Climate Change Conference. The purpose of that global summit was to forge a global agreement to reduce global warming within the UN Framework Convention on Climate Change. The speeches by these two presidents carry the message that this global problem requires a global solution and, as we will see as we delve more deeply into the issue, these speeches also lay out the difficulties beneath the rhetoric that make solving climate change so problematic and so in keeping with the difficulties highlighted in [chapter 7](#).

Here is the closing section of President Obama's speech to the General Assembly in September 2009:

As we meet here today, the good news is that after too many years of inaction and denial, there is finally widespread recognition of the urgency of the challenge before us. We know what needs to be done. *We know that our planet's future depends on a global commitment to permanently reduce greenhouse gas pollution* [emphasis added]. We know that if we put the right rules and incentives in place, we will unleash the creative power of our best scientists, engineers, and entrepreneurs to build a better world. And so many nations have already taken the first steps on the journey towards that goal.

But the journey is long. The journey is hard. And we don't have much time left to make it. It is a journey that will require each of us to persevere through setback, and fight for every inch of progress, even when it comes in fits and starts. So let us begin. For *if we are flexible and pragmatic; if we can resolve to work tirelessly in common effort, then we will achieve our common purpose* [emphasis added]: a world that is safer, cleaner, and healthier than the one we found; and a future that is worthy of our children. Thank you.

At the same session, China's president Hu Jintao declared the following:

Climate change, food security, energy and resource security and public health security are all global challenges and no country is immune from them. The only way for us to meet these challenges and

ensure harmony and peace is to engage in closer international cooperation. *We should aim for common progress, bearing in mind not only the interests of our own people but also those of the people of the whole world, and expand converging interests* [emphasis added].

Climate change is one of the serious challenges to human survival and development and international cooperation is the key to tackling this challenge. We should keep to the United Nations Framework Convention on Climate Change and its Kyoto Protocol as the primary channel in addressing climate change, abide by the principle of “common but differentiated responsibilities,” adhere to the mandate of the Bali Roadmap, and work for the success of the Copenhagen conference with a view to achieving mutual benefit and common progress. (Jintao 2009)

These statements by the leaders of the two biggest greenhouse gas-producing nations sound like they strike a common purpose. They agree that global solutions must be found and that the then-upcoming Copenhagen summit needed to be an important stage on which fundamental progress was to be made. And yet, differences between the United States and China played a central part in the reality that Copenhagen produced little agreement on anything substantive. As is so often true, the devil is in the details and those details are hinted at in the passages just quoted. As we know, talk is cheap. We must look at costly action and costly statements to infer the prospects of success in international cooperation. Applying what we have learned thus far we will see why we ought not to expect to find a global solution to climate change but we ought to expect that domestic political pressure in key countries can make a big difference in taming global warming.

Collective Action and Free Riding

We live in a world with 192 nations, made up of almost 7 billion people. Every one of the 192 nations has endorsed the UN Framework Convention on Climate Change. This certainly seems like a promising start to finding a global solution. Of course, the individual nations of the world, let alone each individual citizen of planet earth, do not have an equal stake in resolving greenhouse gas emissions or in creating those emissions. Some nations and their people are put at much greater risk than others by global warming. [Table](#)

8.1 lists the five most important threats produced by global warming, and it identifies the countries that the World Bank deems are most vulnerable to them. The critical categories of threat include drought, flooding, storms, coastal inundation and submersion and agricultural losses. The table is shaded to make it easy to see which of the most vulnerable countries are poor and which are middle income. None of the most vulnerable countries is among the world's rich, itself a telling fact about the uneven distribution of the threat from global warming and uneven incentives to correct that threat.

With a few exceptions, the countries facing the worst consequences of global warming are not big contributors to its causes. Table 8.2 lists the ten largest greenhouse gas emitter countries of the world based on four distinct criteria. There is some overlap between these lists and the countries in table 8.1 but not much. Given what we have learned about the incentives to free ride and the relative costs and benefits of collective action, we will want to think carefully about what that implies.

TABLE 8.1 Global Warming National Threats

Six Climate Threats, and the Twelve Countries Most at Risk

Low Income		Middle Income		
Drought	Flood	Storm	Coastal 1m	Agriculture
Malawi	Bangladesh	Philippines	All low-lying Island states	Sudan
Ethiopia	China	Bangladesh	Vietnam	Senegal
Zimbabwe	India	Madagascar	Egypt	Zimbabwe
India	Cambodia	Vietnam	Tunisia	Mali
Mozambique	Mozambique	Moldova	Indonesia	Zambia
Niger	Laos	Mongolia	Mauritania	Morocco
Mauritania	Pakistan	Haiti	China	Niger
Eritrea	Sri Lanka	Samoa	Mexico	India
Sudan	Thailand	Tonga	Myanmar	Malawi
Chad	Vietnam	China	Bangladesh	Algeria
Kenya	Benin	Honduras	Senegal	Ethiopia
Iran	Rwanda	Fiji	Libya	Pakistan

Source: World Bank. 2009. Convenient Solutions to an Inconvenient Truth: Ecosystem-based Approaches to Climate Change. © World Bank. <https://openknowledge.worldbank.org/handle/10986/3062> License: Creative Commons Attribution CC BY 3.0.

Suppose we assume that everyone, having signed the UN Framework Convention on Climate Change, wants to solve global warming. Doing so requires some fundamental, potentially very costly, changes in behavior. How might we allocate responsibility? We could, of course, focus on the biggest victims of global warming—that is, the countries in [table 8.1](#). They, after all, seem to have the most at stake. Those who are subject to the worst agricultural disruptions might, for instance, retool, changing their agricultural production to less vulnerable crops or switch from agricultural dependence to other (greener) bases for their economies. Such changes, given that each is probably doing what it earns the most doing—each is pursuing its **comparative advantage**¹—would surely be extremely disruptive and costly. These poor and middle-income countries probably would have to become poorer, or look to the charity of others to help them out. We will see in [chapter 12](#), when we investigate foreign aid, that the charity of others is a poor basis for hoping to save their economies.

TABLE 8.2 Top Ten Greenhouse Gas Emitters

CO ₂	All greenhouse gases	CO ₂ on per capita basis	All greenhouse gases on per capita basis
China (25.4%)	China (16.4%)	Qatar	Qatar
USA (17.8%)	USA (15.7%)	Trinidad and Tobago	United Arab Emirates
India (5.3%)	Brazil (6.5%)	United Arab Emirates	Kuwait
Russia (5.2%)	Indonesia (4.6%)	Bahrain	Luxembourg
Japan (3.6%)	Russia (4.6%)	Brunei	Australia
Germany (2.5%)	India (4.2%)	Kuwait	Bahrain
Canada (1.8%)	Japan (3.1%)	Luxembourg	USA
South Korea (1.7%)	Germany (2.3%)	Aruba	Canada
Iran (1.7%)	Canada (1.8%)	Australia	Trinidad and Tobago
UK (1.7%)	Mexico (1.6%)	USA	Turkmenistan

Source: Clark 2011.

Locales that are subject to flooding and storms could invest in better dikes and levees just as those vulnerable to droughts might build more granaries, as the pharaohs did in ancient Egypt, to protect their population from starvation when crops fail. Each of these vulnerable countries could alter their economies to improve their survival prospects in the face of the threats imposed on them by global warming, but each such change would be very, very costly—probably prohibitively so. Because the costs are likely to

be so high, it is important to remember that none of the countries in [table 8.1](#) have high income. They can't afford to spend substantially more to protect against the consequences of global warming without precipitating national economic collapse and the political risks that entails. Indeed, the governments in these countries argue—mostly correctly—that they are the victims and not the cause of the problem and should not, therefore, be the ones to bear the cost of fixing it. They suffer from the negative externalities of economic development in other parts of the world; that is, they suffer the costly consequences of global warming generated by governments other than their own.

Probably the governments that run the countries in [table 8.1](#) will look to the countries in [table 8.2](#) to solve the problem by reducing the cause of greenhouse gases instead of looking to themselves to solve the consequences they face. In fact, virtually all international discussions about finding a global solution to greenhouse gas emissions focus primarily on the causes of global warming and its producers rather than on the victims. That, of course, is just how the victims want it and probably that is a good thing, but then we must also ask, “How do the producers react?”

To answer that question, let's start off by treating everyone as having an equal interest in resolving the global environmental problem. That, after all, is implied by the argument that it is a global problem and recognition that air pollution imposes negative externalities on all of us. Solving the problem will produce a public good that everyone will enjoy. Using our model for collective action from [chapter 7](#), and assuming all would benefit from reduced effects of global warming (of course, in reality there are winners and losers which complicates the problem further), we know that if global warming is reversed there will be a public-good benefit whose value we designated as B . But, to get that valuable benefit, each country must bear a cost (c). We, as observers of climate change, don't spend a lot of time really—I mean *really*—thinking about the cost of reversing global warming. We spend much more time, at least rhetorically, thinking about the long-term cost to our children, their children, and their children's children if we do nothing. Re(s)election oriented politicians, however, know that any time they raise taxes or look the other way as food and gasoline prices rise, they risk being removed from office. We tend not to associate the reduction of greenhouse gases with costs we pay. More often we think of the costs as just falling on car and truck makers, petroleum companies, and other big, distant businesses

as if they, in turn, can afford to pay these costs without passing them on to their customers. Even less do we think of the direct impact we would experience in food prices if global warming were brought under control.

Consider what the cost really involves. Greenhouse gases are produced in massive quantities by fertilizers, automobiles, trucks, and other forms of transportation and shipping, electricity generation, heating homes, industrial production, and the list goes on and on. Fertilizer use—a major source of pollution—could be cut way back, but then much less food could be produced, fruit and vegetable prices would rise sharply, and poor people around the world would be more likely to starve. Which is more important? Reversing greenhouse gas emissions or alleviating starvation? These are the tough, inseparable choices that must be made. There are serious moral, as well as political, dilemmas that must be addressed when tackling global warming. To put it in stark, even harsh personal terms, many of us favor organically grown fruits and vegetables. Chemical fertilizers emit lots of emissions in the form of nitrous oxide. Among greenhouse gases, only carbon dioxide and methane are more potent sources of global warming. Nitrous oxide, by the way, also reportedly reduces the earth's ozone layer, allowing more harmful ultraviolet rays into the atmosphere. Organic fertilizers, like chemical fertilizers, also emit nitrous oxide: all fertilizers do. After all, organic fertilizer is, well, organic, packed with the organic matter from which all fossil fuels are derived. Given existing technology, growing a lot of food means fertilizing and fertilizer means greenhouse gases aplenty. That's just a harsh bit of reality. There are no easy choices here. What is right and what is wrong is not so easy to fathom; it certainly isn't black and white.

Perhaps instead of cutting back on fertilizer and food production we could raise the price of gasoline say \$5 a gallon above its market price. Then people probably would drive less, emitting fewer greenhouse gases out of their tailpipes. But then they wouldn't be able to get to work and so everyone would suffer as the productive capacity of labor dropped, manufacturing ground to a halt, fewer doctors and nurses could afford to treat patients unless the cost of medical care went up to cover the added cost of getting to and from work and that food production we sustained by not cutting back on fertilizer, well those fresh fruits and vegetables would have a hard time getting to market.

Maybe we can replace gasoline engines with electric cars. That is happening slowly but steadily. Electric cars don't emit any greenhouse gases

out their tailpipes, but they do need electricity. Electricity is generated far from the emissions-free automobile by emissions-spewing power plants. Some power plants create electricity from emission-free fuels like nuclear energy but then many oppose expanding nuclear energy use, fearing the (greatly exaggerated) dangers associated with it. Lots of electricity is generated by burning coal, a fossil fuel that emits tons of greenhouse gases. A recent study by the Union of Concerned Scientists, for instance, found that in large parts of the United States, electric cars had no better carbon footprint than gasoline-burning cars (Stenquist 2012). The list of “solutions” and problems goes on—and the point is clear. We label costs innocuously as c , but we want to remember that increasing c means real changes in lifestyle for us and especially for the world’s poor if we are to appreciably alter the trend toward global warming. To see how big the changes might be, let’s look at some serious cost estimates by unbiased sources (as distinct from the Sierra Club or Chevron).

McKinsey, a highly regarded, nonpartisan management consulting firm, reported on their study of the cost of reducing greenhouse gases in 2007 (Creyts et al. 2007). They examined several scenarios and produced a rigorous estimate of the abatement cost per ton of carbon dioxide and other emissions in terms of their equivalent impact to a ton of carbon dioxide. They also noted that the cost could be significantly reduced if the United States took advantage of the arrangements proposed in Kyoto to allow big emitters in essence, to transfer responsibility for some of their emissions to low emitters for a price. This flexibility arrangement, which we discuss later, is equivalent to counting less of the carbon dioxide emissions than the United States actually produced, creating a market for pollution rights. I do not focus on this estimation of costs as it does not involve actual reduction in greenhouse gases. It doesn’t involve the United States cutting emissions; it involves attributing those emissions to someone else with their approval. With that caveat in mind, McKinsey calculates the following:

The United States could reduce greenhouse gas emissions in 2030 by 3.0 to 4.5 gigatons of CO_2e [with e standing for equivalents and a gigaton equal to one billion tons; that is 10^9 tons] using tested approaches and high-potential emerging technologies. These reductions would involve pursuing a wide array of abatement options available at marginal costs less than \$50 per ton [in 2005 constant

dollars]. (Creyts et al. 2007)

The National Academies (consisting of the National Academy of Sciences, the National Academy of Engineering, the National Academy of Medicine, and the National Research Council), created by Abraham Lincoln to provide the nation with a resource that could study complex problems, enlisting the leading experts in the nation, has also conducted a study of global warming. While the McKinsey study envisions reducing greenhouse gases by less than 50 percent of expected output in 2030, the National Academies reports the following:

Because human carbon dioxide emissions exceed removal rates through natural carbon “sinks,” keeping emission rates the same will not lead to stabilization of carbon dioxide. Emission reductions larger than 80%, relative to whatever peak global emissions rate may be reached, are required to approximately stabilize carbon dioxide concentrations for a century or so at any chosen target level. (Committee on Stabilization Targets 2011)

They go on to note that even at such deep reductions, the earth’s temperature could take hundreds of years to stabilize, with equilibrium reached at a level of warming equal to about 3 degrees Celsius (5.4 Fahrenheit).

Returning to the McKinsey study, we might think that \$50 per ton sounds pretty modest. McKinsey notes that this is affordable while maintaining consumer well-being although this cost does not include transaction costs (i.e., the cost of doing business, taxes). To appreciate what \$50 per ton means, we need to translate that amount into what it means relative to the gross domestic product (GDP)—that is, the value of all the goods and services produced in the United States in one year. Since a gigaton is one billion tons (1×10^9), the **marginal cost**—the extra cost as it were to the economy—to reduce one gigaton of carbon dioxide equivalent emissions is estimated to be around \$50 billion. To reduce output, as estimated by McKinsey, by around 4.5 gigatons in 2030 (and lesser amounts in nearer years), then, we are talking about a marginal cost of about \$225 billion in 2030 (in 2005 constant dollars) and close to these amounts each year from now until then. The US GDP is currently close to \$15 trillion, so we are talking about 1.5 percent of GDP. If we think of the cost as a percentage of

the federal budget, since the federal government and we, the taxpayers, are likely to pay this cost, then we are talking about shifting something like 7.5 percent or more of the federal budget from other items to emissions reduction or running up the deficit further.

To put \$225 billion in perspective, interest on federal loans (i.e., the cost of paying for the national debt) takes up about that amount of money each year. Federal spending on education and transportation combined comes to around \$250 billion. The cost of reducing greenhouse gases is about one quarter of the defense budget and is about eight times what the government spends on general costs of government. Put in an international context, it is two-thirds of what the United States and Western Europe spend on agricultural subsidies and protection against outside competition. So is it an unimaginable amount of money to spend? No! Could we afford to do it? Yes! Will American voters agree to pay \$225 billion annually to reduce greenhouse gas emissions by less than 50 percent in eighteen years? Probably not. Just imagine the reaction by a farm-belt member of Congress if s/he is told that farm subsidies, which cost \$20 billion per year in the United States, will be given up to pay only 10 cents on the dollar for reducing greenhouse gas emissions by a quantity that is too little to stabilize global temperatures. Will educators agree to forgo two-thirds of their national budget to pay the bill? Surely not! Will Congress cut Defense by a fourth to pay for climate control? That seems extremely unlikely. The military and defense industry make up powerful interest groups, and after all, the primary function of government is to protect us from internal and external threats to our security and well-being.

Probably it would be hard but not impossible to convince millions of voters that the US budget could be shifted around by \$225 billion to ease the growth in global warming. It would be a much harder problem to convince millions of voters that *their* favorite programs ought to be cut to yield that extra \$225 billion and even harder to convince them that *their* taxes should be increased to pay for it. They would have no problem asking others to pay or proposing that other's favorite programs be cut but every program is someone's favorite. That is why cutting spending on anything is so hard to do. Remember that member of Congress from a farm-belt district. Is she going to agree to reduce or eliminate agricultural subsidies—subsidies often used to pay farmers not to grow crops as a way to keep prices high—to pay for emissions reduction? Surely that member could not get reelected. Imagine

the same for members from districts that depend on military bases or defense contractors for jobs. There's no way they will take on the burden. Consider members in districts with large state college or state university campuses. They won't be ready to pay for emission abatement on the backs of their constituents, not if they hope to hold their seat. The urge to free ride on the efforts of other citizens, other electoral districts, other countries, and other governments will be great.

Table 8.2 informs us that the United States produces about 16 percent of the world's greenhouse gas emissions. Let's suppose McKinsey's cost estimate is right. If everybody but the United States made the same magnitude of effort, with the United States free riding, the US annual benefit would be 84 percent of the benefit (or, in our earlier notation, $0.84B$) (with the United States accounting for the remaining 16 percent that is not reduced in this example) with a savings of \$225 billion. If the United States pitched in, the benefit would be $B - \$225$ billion. So, the free rider calculation comes down to whether reducing greenhouse gases one-sixth more is worth \$225 billion to American taxpayers. Since China produces about the same amount of greenhouse gases—actually a little more—we can equivalently ask whether paying \$225 billion in abatement costs can be expected to be acceptable to China's leadership or citizenry. To put that question in perspective, China's GDP in 2010 was about \$6 trillion, just 40 percent of the US GDP. Of course, China has many more people and a much smaller winning coalition since it is not democratic, so the cost can be spread among more people but they are mostly poor people who can ill afford the added burden. Chinese leaders might appropriately fear that such a large added cost could precipitate a revolution to overthrow them. Depressing facts, yes, but they help us understand the incentive to talk the talk but not walk the walk.

SEEKING AGREEMENT: ALLOCATING ABATEMENT COSTS

We know that when everyone shares the benefit of collective action, rational actors have strong incentives to free ride. And we know that when there is free riding there is less of the public good—in this case, reduced global warming—produced than is socially optimal. Everyone wants more effort to diminish greenhouse gas emissions *by others* but too many also want to shirk,

enjoying the benefits while others pay the price. Even the McKinsey study, remember, seeks less than a 50 percent reduction in the emissions projected for 2030 while the National Academies tell us that less than 80 percent will not even hold global warming's effects from rising for hundreds of years.

Just how bad the free rider problem is can be readily seen by looking at the facts surrounding repeated efforts to achieve reductions through global agreements. Many proposals have been put forward with little positive to show for them. One proposed solution shifts responsibility for solving global warming to the relatively small group of top polluters in [table 8.2](#). Emphasis currently is placed especially on the United States and Brazil, Russia, India, and China, which are collectively known as BRIC. These five countries account for almost half of all greenhouse gas emissions and more than half of all carbon dioxide emissions. If they acted as stewards of planet earth, the problem would surely be greatly reduced, albeit at a collectively enormous economic and political cost.

Calling on only the top polluters to address the emissions problem, however, has its own big problem. It is true that it reduces part of the collective action problem. Now we are calling on just five governments to join hands to address their half of the total emissions problem. If they completely eliminated these emissions then, following our earlier logic, they could produce half of B . That is, the probability of eliminating half of emissions is now dependent on the action of just five governments, with the other half treated as the (postponed) responsibility of the remaining 187 countries. So, for instance, if the United States and the BRICs each did their called-upon part, then they would receive $5/5$ times $1/2$ of $B - 5c$, and if any one free rode on the others, then the free rider would get $4/5$ times $1/2 B$ and avoid their share of c . Now to free ride, each of these countries must believe that c is larger than $1/10$ of B . We have seen how big c is estimated to be (and the McKinsey report is optimistic that the cost is manageable). We did not have a hard time imagining that American voters would balk at the big price of reduced global warming. It is harder to imagine the much poorer people of the BRIC countries making such a sacrifice for the greater good. Hence, Hu Jintao's carefully worded statement quoted earlier. Recall, he said, "We should *abide by the principle of 'common but differentiated responsibilities'*" [emphasis added]. That is, he did not subscribe to the idea that the top emitters should each make an equal effort; their responsibilities should be differentiated. What does that "differentiation" refer to?

We know that the leaders of the BRIC nations, especially India and China, argue that the global warming problem is the product of 200 years of industrialization and pollution that made Europe and North America rich. Not surprisingly, they conclude that the historical responsibility should be taken heavily into account, shifting a massive amount of the current cost of abatement to the rich nations that can best afford to pay for the cleanup and endure the economic consequences of their historical legacy. And just as unsurprisingly, the United States balks at paying the lion's share to reduce greenhouse gas emissions while the Chinese, Indians, Russians, and Brazilians continue to pour the offending gases into the atmosphere to fuel their economic growth. Here, for example, is another passage from President Obama's 2009 speech before the UN General Assembly:

We also cannot allow the old divisions that have characterized the climate debate for so many years to block our progress. Yes, the developed nations that caused much of the damage to our climate over the last century still have a responsibility to lead. And we will continue to do so—by investing in renewable energy, promoting greater efficiency, and slashing our emissions to reach the targets we set for 2020 and our long-term goal for 2050.

But those rapidly-growing developing nations that will produce nearly all the growth in global carbon emissions in the decades ahead must do their part as well. Some of these nations have already made great strides with the development and deployment of clean energy. Still, they will need to commit to strong measures at home and agree to stand behind those commitments just as the developed nations must stand behind their own. *We cannot meet this challenge unless all the largest emitters of greenhouse gas pollution act together. There is no other way.* [emphasis added]

Neither Hu Jintao nor Barack Obama questions for one moment the importance of addressing climate change. And yet their positions, each politically advantageous given the interests of the people they lead and depend on for political support at home, are a million miles apart. China's government wants to look back to differentiate historical responsibility; the US government wants to look ahead to the unequal future levels of emissions. If either view were adopted, it would surely please the winning coalition of one leader and appall the winning coalition of the other. If it takes 2—or 192

—to tango it seems unlikely that we will find these leaders dancing to the same beat. Indeed, we can see the problems that US and Chinese rhetoric produce by examining recent global agreements on how to address climate change.

SHALLOW AGREEMENTS = COMPLIANCE; DEEP GLOBAL AGREEMENTS = FAILURE

Earlier I mentioned the UN Framework Convention on Climate Change. The national governments of the world have all agreed to this framework. It calls upon the parties to the framework to meet annually, looking for ways to reduce greenhouse gas emissions. Most meetings are modest with little more than procedural matters on the agenda. But several important international conferences have been held based on the framework agreement. The two most important ones were the Kyoto summit that led to the Kyoto Protocol in 1997 and the Copenhagen summit in 2009, designed to pick up where Kyoto left off since the Kyoto Protocol was scheduled to run only until 2012.

The evidence from the Kyoto and Copenhagen meetings suggests that the free rider problem is alive and well, infecting discussion and action on global warming. Although, as we will see, the Kyoto Protocol led to widespread compliance, it did not abate greenhouse gases. Most countries complied because they were asked to do so little. Every government represented at Kyoto in 1997 was there to hammer out a global solution. Everyone understood all of the problems we have discussed. They wanted to forge an agreement that would begin a long, gradual process of reducing the threat of climate change. They set 1990 as the benchmark year (in most cases) against which to measure reductions as called for in each signatory's case. At the outset, about 175 national governments signed on to the Kyoto Protocol. By 2011, every country except the United States had agreed to the terms laid out in Kyoto. The United States, the largest polluter back in 1997, did not ratify because of what its government saw as unfair parts of the agreement, especially that the protocol did not call upon developing countries to cut their emissions and, of course, the anticipated electoral consequences of signing on (Hovi, Sprinz, and Bang 2012). It *differentiated* in just the sort of way that China's leaders wanted. Those countries, including several members of the BRIC countries, are now, as we saw in [table 8.2](#), large emitters. That is the

A large crowd of people is gathered for a climate change demonstration in Copenhagen, Denmark. The crowd is dense, with many individuals wearing winter clothing. They are holding numerous protest signs and banners. A prominent yellow banner in the center reads "Stop CLIMATE CHANGE Here". To the right, a large, white, inflatable snowman prop is visible, wearing a black top hat and a red scarf, with the text "Stop Global Warming!" written on its chest. Other signs include "THERE IS NO PLANET B", "CLIMATE JUSTICE NOW", "NATURE DOESN'T COMPROMISE", "PLANET NOT PROFIT", and "CHANGE THE POLITICS NOT THE CLIMATE". The background shows city buildings and a traffic light.

Of the 175 original signatories, 137 were in full compliance with the agreement if they did *nothing* to reduce their greenhouse gas emissions.

Russia, for instance, was in full compliance by doing nothing. Following the collapse of the Soviet Union, their emissions fell by about 30 percent due to economic stagnation. Thus, they could comply while *increasing* emissions to their 1990 level. Brazil, China, and India too were in full compliance by doing nothing because that is exactly what they promised and were obligated to do under the terms of the agreement. That left the thirty-eight Annex I governments, mostly in Europe plus Japan and the United States, solely responsible for making big enough changes to achieve the target reductions. Clearly these thirty-eight signatories had a huge responsibility with a huge cost attached to it. They also had a huge opportunity to improve the world. What did they do?

A few signatories to the Kyoto Protocol actually made big strides in reducing emissions, meeting or exceeding their target. As of late 2009, these include Greece, Germany, England, and Sweden. Others on target include such countries as the Czech Republic, the Slovak Republic, Poland, Hungary, Bulgaria, and Romania. Those who are far behind their target or have utterly failed, increasing rather than decreasing emissions, include Canada; Italy; Denmark; Spain; the Netherlands; Ireland; Switzerland; Scotland; Norway (which committed to holding down only the *growth* in their emissions to 1%), Finland; Austria; and the Kyoto host country, Japan. Do you notice a pattern in these groups? Among the big failures are many of the world's leading greenhouse gas emitters as identified in [table 8.2](#). A couple of big successes are also leading emitters, but even their success must be viewed with a tremendous grain of salt. You see, the assessment of how these countries have performed is based on their emissions as of late 2009 when the world was deep in its worst economic recession since the Great Depression.

Economic contraction reduces industrial production and demand for the energy it requires. So those with good performance are more likely reflecting poor economic circumstances than truly compliant behavior. The bad performers might have been even worse if their economies were in better shape. Thus, we cannot be confident that even the good performers actually changed their behavior to be greener in order to comply with the agreement. Indeed, several of the thirty-eight Annex I governments, including, for instance, Canada and Japan, announced that while their intentions were good they just could not meet the reduction targets to which they had agreed. Kyoto notwithstanding, data for 2010 show that the world experienced the greatest increase *ever recorded* in carbon dioxide emissions. Europe's

greenhouse emissions in 2011 were up 3 percent. A recent report by the European Commission and the Netherlands Environmental Assessment Agency reports the following:

After a 1% decline in 2009, global carbon dioxide (CO₂) emissions increased by more than 5% in 2010, which is unprecedented in the last two decades, but similar to the increase in 1976 when the global economy was recovering from the first oil crisis and subsequent stock market crash. CO₂ emissions went up in most of the major economies, led by China and India with increases of 10% and 9% respectively. The average annual growth rate in CO₂ emissions over the last three years of the credit crunch, including a 1% increase in 2008 when the first impacts became visible, is 1.7%, almost equal to the long term annual average of 1.9% for the preceding two decades back to 1990. (Olivier 2011)

This same study goes on to report the following

The efforts of the industrialised countries are increasingly hidden in the global picture where their share of CO₂ emissions has dropped from about two-thirds to less than half since 1990. Continued growth in the developing nations and economic recovery in the industrialised countries are the main reasons for a record breaking 5.8% increase in 2010 in global CO₂ emissions.

That is, the advanced economies, mostly including Western Europe, the United States, and Japan, are shifting away from manufacturing and other energy-intensive economic activities into services and other less energy demanding sources of wealth production. Global emissions are, as we can see in [table 8.2](#), shifting to the poorer, more manufacturing-oriented countries such as India and China that are now racing ahead to catch up.

MONITORING AND PUNISHING NONCOMPLIANCE WITH KYOTO

The developing countries were given a pass in Kyoto. As we have seen, they had no reduction targets to meet. The more developed economies were asked

to cut back emissions, and as we have seen, many of them appear to have failed to meet the targets they agreed to. Since we can see that they apparently did not comply, we ought to see what costly consequences they face. Alas, Kyoto had virtually no mechanism for checking on individual nation performance levels. Each country that signed on to the protocol was obliged to self-report on their progress. In most cases, filing a report was sufficient to be compliant since most signatories did not have to reduce emissions. For those who promised a lot and then reneged, Kyoto was weak at monitoring and even weaker at having the means to punish violators. The official position on enforcement stipulated that if an Annex I country missed its target reduction then it had to make this up during the next commitment period plus reduce its emissions by another 30 percent. In practice, at least as of this writing, this didn't happen. Nor, as proposed at Kyoto, have countries that failed to meet their targets so far actually been penalized by being prohibited from trading away some of their emissions because Kyoto's second mechanism ends up allowing governments to appear compliant when they are not.

Flexibility

The second mechanism allowed countries to trade emissions. Each Annex I country received an emissions allowance (formally known as assigned amount units). Many countries, such as those of Eastern Europe and other transitional economies, have a surplus of allowances (they can emit more than they do) while the more advanced economies among the Annex I nations have a deficit; that is, they produce more emissions than permitted by the protocol. Those falling short of their targets could purchase allowances from those governments with a surplus. In that way, those buying allowances effectively altered their reduction target, making them seem to be compliant. Those selling their surplus allowances, the mostly poorer economies asked to do little or nothing, remained compliant with the shallow demands made on them. That flexibility mechanism, intended to recognize the differential national costs in reducing greenhouse gases, offered a means by which noncompliant states could avoid stiff penalties while also transferring wealth to poorer economies. The trouble is, the mechanism hinges on a difficult to assess counterfactual: What would emissions have been in the absence of the flexibility mechanism? That is a hard to answer question under the best of

circumstances. That the expected emissions is so hard to evaluate leaves open a gaping hole through which emitters could avoid penalties. In that sense, the variants on this flexibility mechanism created a win-win for those poorer countries that had to do nothing and the richer, noncompliant countries that failed to meet their targets. But this is not a win-win-win if the third win refers to the citizens of the world and especially the citizens of the countries in [table 8.1](#). This flexibility mechanism helped make Kyoto look relevant and provides a means for noncompliant states to appear more compliant than they are, but this flexibility mechanism also means that targets can nominally be met by states even as they fail to reduce greenhouse gas emissions. At the end of the day, that hardly seems to satisfy the purpose behind reaching a global agreement like the Kyoto Protocol. It did, however, make it attractive for just about every government in the world to agree to Kyoto's terms.

Without adequate monitoring and punishment procedures, it was easy for governments to sign on even if they did not intend to perform. In that limited sense, the US government at least did the honest thing by not signing. American politicians were not prepared to pay the expected domestic political cost at the ballot box for agreeing to reduce greenhouse gas emissions to the degree called for by Kyoto without comparable commitments from developing economies like India's and China's, each a massive greenhouse gas emitter, and so the US government did not ratify and, therefore, did not renege. No promises were made although the United States did make genuine progress in reducing its own emissions at its own politically and economically dictated pace. Thus, President Obama's speech is accurate in pointing to the efforts the United States has made. Hu Jintao's speech is accurate in noting the existing program's call for differentiated responsibility. And neither country, nor many others, meets the goals that motivated the Kyoto Protocol.

Despite good intentions, Kyoto produced a lot of free riding. It achieved high compliance by not obliging most governments to alter their emissions behavior. It allowed those with real reduction targets to fail to meet them and still be officially compliant through the allowance mechanism. It was a shallow agreement; it didn't ask those who signed it to do much of anything. It is, as we know, easy to comply with a shallow agreement and so compliance is high and emissions continue to rise.

WERE KYOTO'S LESSONS LEARNED?

One of the positive products of Kyoto was the scheduling of other global meetings to work on the problem. Nations met in Bali, Indonesia, to lay the groundwork for a global summit in Copenhagen. Optimism of a major breakthrough spread all around the globe as the December 2009 Copenhagen summit grew closer. The World Wildlife Federation, for instance, declared the following:

The architecture of the Copenhagen treaty should initiate a race to the top.... Copenhagen has the potential to give the world a clear path to rapidly bending the global emission's curve—and give millions of people and species a chance at survival. (World Wildlife Federation 2009)

The organization Germanwatch expressed its expectations:

Important and decisive steps have been taken in Bali. They give reason to believe that a new global agreement on climate protection for the time after 2012, i.e. following the expiration of the Kyoto Protocol's first commitment period, will come into effect. (Bals 2008)

One year before the Copenhagen summit, *Time Magazine* reported (Walsh 2008) that France's climate ambassador, Brice Lalonde, states of the upcoming Copenhagen summit, "We hope for a spectacular outcome in Copenhagen next year."

Despite these optimistic declarations, Copenhagen produced, by just about everyone's account, nothing. Why? US secretary of state Hillary Clinton went to Copenhagen, money in hand, and declared the following:

And today I'd like to announce that, in the context of a strong accord in which all major economies stand behind meaningful mitigation actions and provide full transparency as to their implementation [emphasis added], the United States is prepared to work with other countries toward a goal of jointly mobilizing \$100 billion a year by 2020 to address the climate change needs of developing countries. We expect this funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. This will include a significant focus on forestry and

adaptation, particularly, again I repeat, for the poorest and most vulnerable among us. (Romm 2009)

Before exploring the negative Chinese (and Indian) response, let's dissect this statement a bit to see how it fits with our understanding, from [chapter 7](#), of why global agreements are unlikely to be the right path to solving most truly costly international problems.

The italicized portion of Clinton's statement adds conditions to the multilateral fund she promises. The strings that she attached include three crucial elements: (1) a strong accord, (2) meaningful mitigation, and (3) implementation transparency. What she said here is that the annual \$100 billion fund, with the money not due to be raised before 2020, must be tied to a deep agreement rather than a shallow one (a strong accord). Deep agreements call on signatories to make real changes and real changes are costly, hence the compensatory fund. Her second condition insists on meaningful changes, and her third condition insists that there is sufficient transparency so that violators can be detected and punished. In short, she called for a real deal. Now, as it happens, she called for a real deal with a symbolically impressive amount of money to help compensate developing countries for their cost of compliance. But, as we know from our earlier discussion, \$100 billion a year surely was a help but it was also far too little to make a big difference when spread across the vast number of developing countries. After all, we already have seen that reasonable estimates of the cost of modest US reductions alone come to more than \$200 billion per year. There is little reason to think the cost for China or India would be vastly lower. We can be optimists and say that Clinton's offer was a sincere effort to move greenhouse gas reduction forward, or we can be cynical and say that Clinton made a strategic, rhetorical proposal she knew China's and India's leaders could not or would not accept.

The multilateral, rich-country offer to amass an annual \$100 billion fund seemed to be a significant step toward support for the idea of differentiated responsibilities promoted by Hu Jintao in his September 2009 General Assembly speech. The biggest problem, for China and India too, was the call for transparency. India's environmental minister reacted by accusing the rich nations of a propaganda campaign to allocate blame for failure at Copenhagen to the developing countries. He certainly recognized that the proposed fund was a rhetorical coup for the United States and the west

Europeans. The Chinese government's response was as follows: China refused to agree to meaningful monitoring. Confronted with the differentiation they said was essential, their rhetoric was exposed for what it was. It seems the Chinese were not prepared to allow others to verify whether China was fulfilling its promises. And so Copenhagen failed to produce the progress so many seemed so confident of just months, weeks, and even days before the meeting began.

AN ILLUSTRATIVE STRATEGY FOR REDUCED GLOBAL WARMING

Despite the many difficulties, it is possible to see a strategic way forward. The problem of global warming is not going away easily or soon. But that very fact offers strategic ways for leaders to address the costs and distributional inequalities or inequities—each seen differently through different leadership eyes—associated with global warming. Consider, for instance, a bilateral deal between the number three and the number two greenhouse gas emitters, each living in the same hemisphere, each exposed to the negative effects of the emissions of the other: Brazil and the United States. Such a deal is not a cure for global warming. Too many countries would be excluded from it to be that. But sometimes we must settle for an attainable second-best over an unattainable quest for perfection.

Brazil's economy produces about \$2 trillion per year, distributed across about 200 million people. It emits 6.5 percent of the world's greenhouse gases. On a per capita basis, it is wealthier by far than China, and in population it is vastly smaller. This combination, as we will see, makes Brazil a really good target for a meaningful bilateral global warming agreement with the United States, which China is not. If the United States and Brazil cooperated with each other in making a serious effort to reduce greenhouse gases, they could each gain a substantial benefit while, as we know, also pay a significant cost. If one cooperated, cutting its emissions while the other cheated, promising to do so but then failing, the cooperative regime would pay the price of reduced emissions and get a diminished benefit, suffering from the emissions drifting over its territory from the other party. If neither cooperates why then we are in the poor current state of affairs.

This bilateral setting involving just the United States and Brazil meets the

conditions of the familiar prisoner's dilemma that we met in [chapter 4](#) and its repeated version in [chapter 7](#). We know that the repeated game can lead to a jointly cooperative outcome. Suppose the proposed \$100 billion fund—or even just half of it—were targeted only at helping to reduce Brazil's emissions. Then the cost-benefit calculus for the recipient country would be more dramatically changed than if the fund, as proposed, was targeted at all developing countries. Let's look at some numbers and think about what they could mean.

Consider putting \$50 billion aside annually to spend on greenhouse gas abatement in China or Brazil. China's per capita income is about \$4,270 and Brazil's \$9,390. The per capita income in the United States is around \$41,000. That might suggest that \$50 billion in saved costs in China would be more attractive than in Brazil, but we need also to reflect on how many people the benefit in saved costs needs to be spread among. China has about 1.35 billion people and Brazil about 200 million (0.2 billion). About \$50 billion in savings translates into an extra \$250 per person in Brazil or \$37 per person in China (or much more per capita to the members of its small winning coalition that might dissipate these funds through corruption). And \$50 billion in savings translates into a 2.66 percent increase in the per capita income of each Brazilian each year and only 0.87 percent for each Chinese. So we can see that a bilateral deal focusing \$50 billion from the United States on helping to abate Brazilian emissions would have a much bigger impact on their economy and the well-being of individual Brazilians than a comparable amount of money targeted at China. Of course, this still leaves the question of whether Americans, or a consortium of wealthy states would be capable politically of targeting that much money to one large greenhouse gas emitter. American per capita income, at about \$41,000 and even with all 300 million Americans paying the price, would feel a pinch equal to \$167 per head or 0.4 percent of per capita income. If the Europeans paid their share, we would be talking about substantially less than foreign aid expenditures for which they could purchase a far greater global gain than is achieved with aid, as we will see in [chapter 12](#). Of course, that still leaves the question of how much the United States or Europe is prepared to spend on their own emission reductions, but here I am looking for progress rather than perfection. Targeting one very large and growing emitter at a tolerable cost may be a sensible step that produces better results than continued pursuit of global agreements that result in little or no real progress.

Let's put this in a repeated—annual—prisoner's dilemma setting. To do so, we need a few assumptions and calculations. Since both the United States and Brazil are democracies with regular elections, I am going to assume that the shadow of the future is not very high for either government. After all, politicians facing reelection will be sensitive to voter calculations at the next election, just a few years off into the future at any time. I assume, then, that the time discount term, δ , equals 0.80 for Brazilian and American politicians. Since the United States produces 15.7 percent of world greenhouse gas emissions and Brazil produces 6.5 percent, I will assume that each contributes proportionately to the benefit, B (reduction of the 22.2 percent they collectively produce) if they reduce their emissions and the cost c of doing so. That translates into the United States being responsible for about $0.70B$ and $0.70c$ and Brazil for about $0.30B$ and $0.30c$. I do not attach a dollar value to the benefit B or the national costs that add up to c at this point.

Since I am arguing for the United States to provide Brazil with \$50 billion per year for verifiably reducing its emissions by an agreed-upon amount (its share of B), I assume joint cooperation results in a gain for the United States of $B - 0.70c - \$50$ billion and a gain for Brazil of $B - 0.30c + \$50$ billion. If the United States cooperates and Brazil cheats, then the United States gets $0.70(B - c)$ and Brazil gets $0.70B$. If the United States cheats and Brazil unilaterally reduces its greenhouse gas emissions, then the United States gets $0.30B$ and Brazil gets $0.30(B - c)$. If neither cooperates, then the United States gets $P1$ and Brazil $P2$, neither doing better nor worse than is true under the current emission regime. We do not need to attach a numeric value to the punishment payoffs $P1$ and $P2$; we only need each to be less than the joint cooperation payoff and more than the sucker's payoff for the respective players. Table 8.3 shows the single-period payoffs in this bilateral emission reduction game. It is worth noting that the United States, in this setup, insists, as Hillary Clinton did, on verifiable, transparent implementation. That is reflected here in the idea that the US government only pays the \$50 billion if Brazil cooperates and the United States does not cheat. Money is not paid up front on the promise of compliance but it is assured if Brazil complies with the bilateral agreement. Assured payment can be achieved by placing the money in an escrow account held by a neutral third party that releases the funds upon verifying that Brazil met its target reduction.

By assumption, the US sucker's payoff ($0.7(B - c)$) is less than the

punishment payoff of P . Likewise, Brazil's sucker payoff, $0.3(B - c)$ is less than its punishment payoff of P . For the United States, temptation must be worth more than cooperation. That is, $0.3B > B - 0.7c - \$50$ billion. Doing a little algebra we find that this means that for the United States the total US and Brazilian cost, $c \geq B - \$71.4$ billion or, equivalently, $0.7c \geq 0.7B - \$50$ billion. For Brazil, temptation must also be worth more than cooperation. Again, doing a bit of algebra, this means that for Brazil $c \geq B + \$167$ billion. With these values in mind, the one-shot game resolves with neither side cooperating, choosing $P1$ and $P2$ instead, the regrettable status quo. If Brazil cheats initially while the United States cooperates and the United States follows the tit-for-tat strategy thereafter and so does Brazil, then Brazil's long term payoff is simply the one-time temptation payoff of $0.7B + 4P2$ since the punishment payoff, $P2$ is multiplied by the second period and beyond discount value ($0.8/(1 - 0.8) = 4$). If, however, Brazil and the United States cooperate at first and follow tit for tat, then Brazil's long-term time discounted payoff equals $1/(1 - 0.8)(B - 0.3c + \$50 \text{ billion})$, or equivalently $5B - 1.5c + \$250$ billion. Substituting the value of c we derived for Brazil, this means that Brazil expects to get $5B - 1.5B + (\$250 \text{ billion} - \$167 \text{ billion})$ or $3.5B + \$83$ billion by cooperating. That is almost certainly a lot more than the one-time temptation payoff of $0.7B$ followed by the lesser payoff of $4(P2)$. So if it is in the interest of the United States to cooperate, we can see that it is almost certainly in Brazil's interest.

TABLE 8.3 **Bilateral Brazilian-US Emission Reduction Game**

		United States	
		Cooperate	Cheat
Brazil	Cooperate	$B - 0.7c - \$50 \text{ billion}$	$0.7B - 0.7c$
		$B - 0.3c + \$50 \text{ billion}$	$0.7B$
	Cheat	$0.3B$	$P1$
		$0.3B - 0.3c$	$P2$

For the United States, long-term cooperation with Brazil is worth $1/(1 - 0.8)(B - 0.7c - \$50 \text{ billion})$ or $5B - 3.5c - \$250$ million. The one-time temptation payoff for the United States is $0.3B + 4P1$. Substituting for the value of c we solved for in the case of the United States ($c \geq B - \$71.4$ billion), this means that cooperation is worthwhile for the US government if $5B - 3.5B - (\$250 \text{ billion} - \$250 \text{ billion}) > 0.3B + 4(P1)$; that is, $1.5B > 0.3B + 4(P1)$, which is likely to be true. Here, then, we have a case where a

bilateral deal that is deep is achievable, leading to meaningful and transparent cuts. Key behind this calculation is that the marginal gain to each Brazilian will give them the incentive to encourage their democratically elected, large-coalition government to follow through and the cost to individual American's relative to the gain is small enough that they too will compel their large-coalition elected officials to follow through. A smaller deal with real impact is more readily attainable than a global agreement that inevitably seems to be shallow or lacking in transparency or the clout to punish those who do not meet their commitments.

SUMMARY

Global warming is almost universally seen as a dire threat. It has prompted repeated efforts to forge a global agreement on the means to reduce the threat. Global efforts seem repeatedly to have failed almost surely because of the problems inherent in collective action. Developing countries want the world to look backward and allocate the lion's share of corrective action and costs to the developed countries. The developed countries argue that we must be forward looking, allocating significant costs to the future large emitters, namely the developing countries. Each argument is just the right rhetorical device to advance the interests of one set of governments at the expense of another.

Global agreements like the Kyoto Protocol attracted worldwide attention and enthusiasm. Almost every national government signed on to the terms of the Kyoto Protocol. That made for terrific headlines, but once we probe beneath the surface we discover, just as we should expect, that so many signed on because the agreement was shallow. It provided few mechanisms to enforce violations, flexibility to get credit for meeting reduced greenhouse gas targets even when no reductions occurred and for the vast majority of signatories it asked for nothing in terms of climate change abatement. The Copenhagen summit was an even bigger failure. When offered financial assistance to help defray the cost of abatement for developing economies, China balked. It objected to the string that was attached. Those using the fund were required to observe real transparency so that their compliance could be monitored and, if they failed to comply, they could be punished. It is much easier to subscribe to the rhetoric of climate abatement than to the costly political action it requires.

A bilateral approach between key emitters may improve the prospects of politically tenable solutions. This is especially true if there is a focus on large-coalition emitters and a properly designed system for balancing costs, benefits, and cash transfers. We saw a hypothetical example of this involving the United States and Brazil. Perhaps in the future we will see this bilateral arrangement tried out and discover how it works or what impediments it faces. Ultimately, effective greenhouse gas emissions seem either to require bold unilateral action by wealthy societies like the United States or small international agreements rather than quixotic pursuit of global solutions to this global problem.

KEY TERMS

climate cycle

comparative advantage

externality

margin cost

rhetoric

variance

Answers:

1. b. Gone up because of free riding or minimal demands for real change.
2. c. China and India's leaders are in favor of reduced global warming as long as they do not need to put their own political welfare at risk. Hence, they argue that the responsibility for cleanup and future reductions in greenhouse gases must be borne primarily by the rich, developed countries that created the problem during the previous two centuries.
3. a, b, c, or d. Everyone will have their own answer to this question, but what the record shows is that people generally advocate solutions for which the economic costs fall disproportionately on others. They call for global solutions rather than unilateral or bilateral approaches and they call for solutions that tend to minimize their personal costs.
4. a or b. While there is widespread support for reducing greenhouse gases,

there is a plethora of proposed solutions and little consensus on what is to be done. There is, alas, tons of free riding with many—long on rhetoric and short on personally costly action.

¹ See [chapter 10](#) for a discussion and explanation of the important economic concept of comparative advantage.

9

Human Rights, International Law, and Norms



Skulls are lined up at a memorial site in rural Rwanda.

OVERVIEW

- International treaties carry the **force of law** whereas many international organizations do not.
- Human rights constitutes one of the most important arenas in which treaties are used to try to improve people's quality of life.
- Whether international law and treaties in particular succeed in advancing human rights is hotly debated. The bulk of the systematic evidence is not encouraging.
- Treaty design and ratification are strategic, endogenous processes

so much of what we observe about compliance and ratification reflects selection effects over governmental preferences and expectations.

- Arguments for equal status for civil liberties, **political rights**, **economic rights**, and social rights provide cover for dictators who do not wish to jeopardize their hold on power by granting civil liberties and political rights to their citizens.
- Poverty is not inherently an impediment to human rights. Human rights, however, help alleviate poverty.
- Improving quality of life for the world's poor probably requires giving greater priority to civil liberties and political rights and lower priority to economic rights.

We have now learned some depressing news about international organizations and saw a bit of hope to improve cooperative policy outcomes by the end of [chapter 8](#). [Chapters 7](#) and [8](#) emphasized how weak the connection is between what signatories promise to do and what they actually do. Many of the international organizations and international agreements we met have norms of conduct to back them up. Others, like the United Nations or the World Trade Organization (WTO), each of which includes a judicial branch, are said to be supported by the force of law. It is certainly useful to distinguish between those that seem to have the force of law behind them and those that do not and particularly to work out what it means to say that this or that policy is backed by “the force of law.” Indeed, what the force of law means in international relations is itself a central and controversial question.

Constructivists and liberal theorists believe that norms of behavior are internalized through repeated exposure, rethinking of one's experiences and international political pressure. They hypothesize that by learning and observing the internationally acceptable norms of governance states alter their actions in the long-term, resulting especially in improved respect for human rights. Realists and neorealists disagree. They instruct us that international politics are anarchic, and therefore, there is no **rule of law** and broadly accepted norms never trump the short-term national interest. The

strategic perspective as explicated through selectorate theory makes a place both for certain norms and certain interests. The loyalty norm is central to determining what a leader must do to maintain her winning coalition's loyalty in the face of rival contenders for power. The key interest in selectorate theory is not the national interest but rather the interest of the leadership in doing whatever enhances their prospects of political survival. Thus, the selectorate approach contends that the extent to which norms and laws shape behavior depends on the size of each regime's winning coalition and selectorate. We will see in this chapter how well these accounts work, especially in the context of human rights. Here we will see how crucial the ideas of selection effects and endogenous choices that we met in [chapters 3](#) and [4](#) are in explaining how policy preferences, international law, treaty ratification, and human rights interact for better or for worse.

Assumptions Check

1. International law strictly prohibits states from interfering in the domestic affairs of other states. Do you agree that this respect for the sovereignty of states should be strictly enforced?
2. China argues that US complaints about its human rights record constitutes interference in China's domestic affairs. Do you think international law's respect for sovereignty should apply to human rights violations? What about to domestic genocide?
3. There are nine major international treaties identifying and protecting human rights. These treaties _____.
 - a. improve respect for human rights
 - b. reflect the preferences of signatory states rather than influencing their behavior
 - c. lead states to sign on to avoid international pressure and then result in an improvement in their respect for human rights
4. Does poverty limit the ability of states to protect human rights?
 - a. Yes. Human rights are a luxury good that only rich states can afford to provide.
 - b. No. Poor countries (India, for instance) can respect human rights and respect for human rights can improve economic growth.

5. Does wealth lead to human rights, or do human rights lead to wealth?

See end of chapter for answers.

The human rights arena is a particularly useful policy domain to zoom in on. We have already looked closely at environmental policy to see how club goods and common-pool resources distort government policies and influence global affairs. Human rights provides us with an opportunity to see how the conflict between the dissemination of public and private goods plays out in the international arena. Public goods, of course, are both nonexcludable and nonrival while private goods are excludable and rival. The domestic dissemination of these types of goods is hypothesized by selectorate theory to be linked to the size of a regime's winning coalition and, therefore, to leadership survival. That is not true for realist theories, liberal theories, or constructivist theories. Here, then, we have contending theories in which alternative views look differently at how domestic politics bumps up against, complements or is irrelevant to international laws and norms regarding respect for each individual's integrity and the competing laws and norms insisting on respect for the sovereignty of each state and its right to make its own rules within its own borders. The tension between human rights and the right to sovereignty highlight the great moral significance of human rights. These rights speak to the quality of people's lives and to the quality of government. As such, human rights provide a window into policies that are central to everything else that happens in politics.

If we think back to the argument in [chapter 6](#) that a legitimate opposition disciplines governments to be cautious about entering into foreign adventures, we see the hand of human rights at work. If we contemplate the impact of audience costs on crisis escalation, we see the hand of human rights in the form of free speech and free, competitive elections at work. If we look at the decisions politicians must make between satisfying current economic demands and the long-term environmental well-being of their citizens, we see human rights at work. Wherever we turn, for better or worse, we see how government choices respond to the presence or absence of human rights, especially core [freedom rights](#) like free speech, free press, and freedom of assembly. With that in mind, we will explore the relative performance of different governments on human rights especially after they have signed

international treaties to respect these rights. This specific setting puts together arguments about norms, law, interests, and strategic choice, providing a firm ground to evaluate the merits of competing theories. By forming a better understanding of human rights, the force of promises, the force of law, and the force of domestic politics, we can expand our appreciation of when law or norms work and when they don't. And we can come to grips with the harsh reality behind the suppression of the three freedoms that I have highlighted as crucial for good governance: freedom of speech, freedom of the press, and freedom of assembly.

Before we turn to the subtleties of the interaction between human rights and international law, norms, and domestic constraints, we ought to look first at what is meant by international law and by norms-enforcing international regimes. Within the discussion of international law, we will especially want to explore what the role is of treaties, particularly human rights treaties. And in exploring regimes we will probe the meaning of norms of conduct and how they are expected to shape behavior. When we have done that we will be ready to work out what human rights are, their relative significance, and how treaties and other bodies of international law shape compliance with treaty-enshrined promises about how citizens in and across countries are to be treated.

WHAT IS INTERNATIONAL LAW?

International law is the set of national obligations codified in a body of treaties that national governments enter into voluntarily in the name of their citizens and state. Because treaties are essentially contracts between states they, unlike lesser agreements among states or sub-national or non-national actors, carry the force of law. This often means that independent nonstate bodies—such as certain international organizations—have the authority to hear and rule on disputes and, at least in principle, to punish violations. This also often means that signatory states can press legal claims against alleged violations within the court system of the member states.

Consider the remarkable importance assigned to treaties in the US Constitution. The Constitution explicitly forbids individual states within the United States from entering into treaties or alliances. Foreign policy is exclusively in the domain of the federal government. Within that domain, the president is given the power “by and with the advice and consent of the

Senate, to make Treaties, provided two thirds of the Senators present concur” (Article II, Section 2, Clause 2). The adjudication of disputes involving treaties is also given a special place in the legal structure of the United States. The Constitution (Article III, Section 2, Clause 1) stipulates the following:

The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority, ... and between a State, or the Citizens thereof, and foreign States, Citizens, or Subjects.

Here the Constitution places the status of treaties on a par with the laws promulgated within the United States and on an equal footing with the Constitution itself. They become part of the core law and commitments of the nation once they are ratified in accordance with the procedures set out in the Constitution. In a country that relies on the rule of law that places enormous weight on treaties.

Consider that if the US government ratifies a treaty and then violates it, a foreign interest has standing to use the American courts to redress the plaintiff’s grievances against the US government. The rights of American Indian tribes to exercise sovereignty within their lands, for instance by running gambling casinos even if state law prohibits gambling, derives from the fact that the US government signed treaties with Indian nations in the nineteenth century and those treaties, under the Constitution, have the full weight assigned under Article III, Section 2, Clause 1. We already know that promises in many international organizations carry no such weight. That is what makes international law of such interest and significance.

International law includes treaties about such diverse topics as fishing and exploration rights within the world’s oceans, protection of human rights, prohibitions against torture, the treatment of prisoners of war, regulation of international commerce, copyrights and other intellectual property rights, the nonproliferation of nuclear weapons, and the use of land mines. Countries can opt out of the obligation to obey a given international law by failing to endorse the law. In this way, international law can be very different from laws within countries. People living in a country do not have the option of picking and choosing which of its laws they are obligated to obey. To a much larger degree, nations do have this choice. That is one indication that international politics is anarchic, as suggested by realists.

TRY THIS

Under the Constitution's treaty provisions, is there any difference in terms of the obligations of the US government toward American Indian tribes and the government's obligations under the Treaty of Versailles, which ended World War I, or the Paris Peace Treaty, which ended the war in Vietnam? What does the existence of such treaties with American Indian tribes indicate about their legal status as recognized by the US government? Is the treatment of American Indians a purely internal affair, or is it subject to scrutiny by, for instance, the International Court of Justice in The Hague under international law?

One central question about international law that clearly separates approaches to international relations is whether such law is binding, is not binding but alters behavior, codifies already existing norms and beliefs, or is irrelevant to the actions of nations. Constructivists, as discussed in the introduction to this book, see international law as reshaping the internal perception of national interests and, thereby, changing how states behave. In their view and as a central tenet of constructivism, law helps to create norms of conduct (Finnemore and Sikkink 1998; Keck and Sikkink 1998). Legalistic observers, in contrast, perceive international law as binding rather than as reflecting or creating accepted norms of conduct. International lawyers, for example, do not think of law as reflecting strategic interactions or learned behavior but rather as a body of legal obligations to which signatory states have subjected themselves. The strategic perspective views treaty obligations as costly signals that constrain the range of choices that leaders can make, allowing one generation of leaders to tie the hands—that is, limit the freedom of action—of future leaders. If the restraints imposed by international law deviate too greatly from a leader's interests, then the strategic point of view suggests that the leader will opt out of the law because the costs of doing so are smaller than the gains. Because such breaks with prior treaty agreements can be politically costly at home and damage a government's reputation for carrying out its obligations, breaks with prior agreements are expected to be infrequent.

Realists consider international law largely as the codification of current interests and, therefore, as easily altered or violated when the nation's

interests are no longer served by the existing treaty obligations. Realism, then, suggests there will be more frequent breaks with international law than is implied by the strategic perspective or a constructivist viewpoint. Liberal theorists perceive international law as a foundation on which nations build cooperative arrangements that facilitate coordination in the areas covered by the law. As such, they anticipate infrequent departures from such law because its purpose is to facilitate the advancement of shared national interests in creating a cooperative environment. Liberal theorists share with constructivists the conviction that international law fosters the creation of new norms of conduct among states, inducing compliance, especially in the arena of human rights (Keohane and Nye 1977; Goldstein and Keohane 1993; Clark 2003; Simmons 2009).

The following list provides a useful reference guide to how different approaches to international affairs lead to different expectations about the roles and functions of treaties and other agreements backed by international law.

INTERNATIONAL REGIMES: THE IDEA OF IDEAS AND NORMS

International regimes can be thought of as complements to international law. The idea behind international regimes is that they consist of international rules, regulations, and norms of conduct that lack the force of law but nevertheless carry great weight in shaping behavior in the international arena. Norms in particular reflect the accepted patterns of behavior and values of the day. As such, they are informal means to encourage broadly accepted behaviors, and they are of sufficient impact that they influence behavior without the force of law behind them. International regimes constitute a generic category intended to promote the importance of ideas in international politics (Goldstein and Keohane 1993) by emphasizing how ideas spread and become shared and by highlighting the reputational consequences for violating accepted rules or norms of conduct. We met just such informal, nonlegal mechanisms in [chapter 7](#). Medieval law merchants and even more so the modern-day Better Business Bureau (BBB) are examples of regimes that lack the force of law but benefit from their ability to expose violations of agreed patterns of behavior even when compliance is not compulsory. The

threat of exposure has proven sufficient in countless cases to induce compliant behavior much as constructivists hypothesize but also as hypothesized by the leadership survival focus of selectorate theory.

PERSPECTIVES ON INTERNATIONAL LAW

Constructivism: International law creates norms of conduct. For many governments, it alters their perception of their own national interest. Violations are expected to be infrequent. Signing treaties gradually results in the inculcation of a treaty's values, leading gradually to improved compliance.

Liberalism: International law creates norms of conduct and promotes shared values that favor cooperation among states. The norms of conduct are often promulgated and protected by a hegemonic power. Departures from the law are expected to be infrequent. Signing treaties, then, is hypothesized to improve compliance.

Realism: International law codifies current perceptions of the national interest, especially for powerful states. Relatively frequent violations by the powerful are expected when interests in specific circumstances are not advanced by existing international law or agreements. Treaty signing reflects short-term interests and so does not influence long-term compliance.

Strategic approach: Acceptance of international law creates costly signals that constrain a state's future range of actions. Because the hands of future leaders are tied by international commitments, relatively few violations of international law and agreements are expected. Generally, when a national government signs a treaty it is because it expects to remain in compliance. The treaty does not so much change behavior as reflect the signatory's policy preference as enshrined in the treaty. If the treaty's terms deviate sufficiently from a leader's domestic coalition's interests that the leader's hold on power is jeopardized, then the leader is likely to ignore or abrogate the treaty.



Norms of behavior change with time, circumstance, and experience, and these changes result in altered patterns of international interaction. Because norms are common patterns of behavior rather than law-bound rules, they are more easily changed or evolve with time; they are thought to have less traction than formal legal obligations. For example, today's norms of conduct prohibit targeting specific political leaders for capture or assassination, but in the Middle Ages, capturing and ransoming foreign leaders was a legitimate aspect of warfare. Today, ransoming prisoners of war for money is widely regarded as inappropriate and inhumane, but during the Hundred Years War, in the fourteenth and fifteenth centuries, ransoming prisoners of war was not only normal conduct but the basis for the relatively humane treatment of valuable prisoners. The opportunity to win literally a king's ransom certainly encouraged combatants to treat their high and mighty prisoners of war especially well.

Today, torture, although still used frequently enough to have prompted an international treaty against it and a subject of much concern in the United States during the George W. Bush presidency, violates contemporary norms of behavior at least among Western nations. This is clear from the international outrage at and the embarrassment of many Americans because of the torture of Iraqi prisoners at the Abu Ghraib prison and the "enhanced interrogation techniques" like waterboarding used against prisoners accused by the US government of working on behalf of Al Qaeda. Torture now is seen as abominable conduct throughout at least the democratic world but in the twelfth century, the Catholic Church saw torture as a means of saving souls, rescuing people from eternal damnation. In those days, it was perceived as a good thing. Indeed, Pope Innocent III (1160–1216) reinstituted torture as a way to solve crimes, especially the crime of heresy. At the time, the Church required two eyewitnesses to testify about a crime as part of the evidence needed to convict the accused. Often only two people had direct knowledge of a crime: (1) the victim and (2) the perpetrator. Pope Innocent III concluded that the perpetrator ought to be a witness and that torture, and the threat of the pain of eternal damnation, should be enough to elicit a confession *if* the person were guilty. Today we see obvious flaws in Innocent III's reasoning but his was a progressive, crime-fighting, soul-saving view in the twelfth century.

When norms of conduct are insufficient to promote cooperation, then

more formal legal arrangements become important as the means to resolve international disputes and establish acceptable patterns of international interaction. Informal regimes are replaced by codified laws of conduct and enforcement mechanisms, like courts, when norms alone prove insufficient to achieve the desired ends. The remainder of this chapter focuses on whether, and if so, then when and why any of these mechanisms work, especially in the context of human rights abuse.

WHAT RIGHTS ARE RECOGNIZED AS HUMAN RIGHTS?

The subject of human rights is extraordinarily broad. Some focus on civil liberties and political rights, others economic rights, and still others various combinations of the three. Whatever the focus, there is, fortunately, widespread agreement, at least if treaty ratifications are to be believed, that human rights are universal; they apply to everyone everywhere all the time. That is what makes them “rights” rather than privileges or simply norms of behavior accepted today and maybe rejected or revised tomorrow. What constitutes the set of human rights is a rapidly expanding group of items, some of which are uncontroversial and others, as we will see, seem more primed for political advantage or political cover (no surprise there) than for actual improvement in how people are treated.

Although today we take for granted that human rights are, in the vocabulary of [chapter 7](#), nonexcludable and nonrival, this was not always so. Even in a democracy like the United States with its founding declaration that, “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness” it was evident that these inalienable rights did not extend to women, Indians or to those people held in slavery. At the time of the founding of the United States these inalienable rights may indeed have been nonrival, but they were decidedly excludable. One man’s right to pursue life, liberty, and happiness did not itself diminish another man’s right to pursue these same things. These rights, however, applied only to white men (and some of them to white women), but even then, there were restrictions based on property ownership or education, especially in who had the right of self-determination and the core freedoms

that go with it. Today we are appalled by governments that impose such restrictions, treating these rights as club goods instead of public goods. Times and expectations change.

Surely today it is hard to find a government that does not at least pay lip service to the idea that all people are equal, that all people have the right to their thoughts and ideas (although there is great dispute over their right to freely exercise those ideas when it comes to questions of religion), and that people have the right to express those ideas so as to ensure that their government knows what they want and don't want. Even the nastiest regimes, like North Korea's—or Democratic People's Republic of Korea (DPRK)—enshrine these rights in their constitution, including the core freedoms mentioned earlier: freedom of speech; the press; and of assembly and with them, self-determination. Here are some rights guaranteed by the DPRK Constitution and a good illustration of the idea that talk is cheap:

Article 25: The State shall provide all working people with every condition for obtaining food, clothing and housing.

Article 67: Citizens are guaranteed freedom of speech, of the press, of assembly, demonstration and association.

The State shall guarantee conditions for the free activity of democratic political parties and social organizations.

Article 68: Citizens have freedom of religious beliefs....

Article 69: Citizens are entitled to submit complaints and petitions....

Article 70: Citizens have the right to work....

Article 71: Citizens have the right to relaxation....

Article 72: Citizens are entitled to free medical care, and all persons who are no longer able to work because of old age, illness or a physical disability, the old and children who have no means of support are all entitled to material assistance....

Article 73: Citizens have the right to education....

Article 74: Citizens are free to engage in scientific, literary and artistic pursuits....

Article 75: The citizens shall have freedom to reside in and travel to

any place.

Sounds great, but then there is North Korea's reality, where the practice of free speech, freedom of assembly, a free press, or the right to petition the government is likely to be exercised at the pain of imprisonment or death. Although the North Korean Constitution declares that the state's highest goal is to provide for the material well-being of the people, the leaders live lives of lavish luxury while the people are among the poorest in the world. The DPRK's Constitution alerts us that legal documents are sometimes ignored or subjected to the whims of leaders more interested in their political well-being than in abiding by the fundamental law, the Constitution that they created.

As with every other subject we have met, definitions and debates over human rights are strategic; they are politicized; and we are easily swept into misleading and, I believe, misguided points of view. The UN Universal Declaration of Human Rights, approved in 1948 by nearly the entire UN membership at the time (forty-eight in favor, zero opposed, eight abstentions—seven from the Soviet bloc plus Saudi Arabia) is a case in point. It is noteworthy that the Universal Declaration of Human Rights is just what it says it is: a declaration and not a treaty with the force of law behind it. Since it is not a treaty, it does not legally bind anyone to adhere to it although international lawyers have worked hard to elevate its status. It is, sadly, an example of a shallow agreement filled with promise and devoid of bite. North Korea's Constitution echoes the Universal Declaration's list of rights and yet North Korea's government disregards almost all of them without significant consequence either to the detriment of its leaders or to the benefit of its citizens. In that sense, we can say that whatever norm of behavior is encouraged by the Universal Declaration has not carried enough force to rid the world of violations of its long list of rights from due process of law and a ban on torture to the protection of property rights, civil liberties, and political rights. The Universal Declaration is strong in words but lacks the force to ensure that core freedoms are universally observed.

Mindful of some of the shortcomings in the Universal Declaration, the international community has thus far created nine human rights treaties, each with its own monitoring body. These nine treaties, their acronyms, and date of creation are listed in [table 9.1](#). These treaties have also been augmented by many other international agreements on human rights, such as the Universal Declaration in 1966 and the 1993 Vienna Declaration and Programme of

Action. But the augmentations, which try to clarify the rights expressed in the legally binding treaties, alas like many of the treaties themselves, lack mechanisms to ensure enforcement.

It is interesting to reflect on why the international community feels a need to augment treaties with declarations that elaborate on what human rights mean. Declarations, of course, are not treaties and, therefore, do not have the force of law behind them. These declarations seem designed to make clear what the UN Charter and many subsequent treaties fail to do. The notion of human rights is evolving, so one can certainly understand the need for elaboration and clarification. But we should not lose sight that human rights play an important part in the UN Charter, a document that does carry the weight of international law behind it. The UN Charter is, in principle, a binding contract among its signatory states—just about every national government in today’s world. But, as we have come to expect in our exploration of deep agreements and shallow agreements and especially based on our examination of universal agreements, the UN Charter does not provide a clear definition of human rights. Rather, it is vague on the subject as if all know inherently what the term *human rights* means. The subsequent, clarifying declarations are more explicit but not binding while the nine specific treaties are binding and reflect an effort to put some teeth behind the UN Charter’s good intentions.

TABLE 9.1 **Human Rights Treaties**

Acronym	Treaty Name	Date
ICERD	International Convention on the Elimination of All Forms of Racial Discrimination	December, 1965
ICCPR	International Covenant on Civil and Political Rights	December, 1966
ICESCR	International Covenant on Economic, Social and Cultural Rights	December, 1966
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women	December, 1979
CAT	Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment	December, 1984
CRC	Convention on the Rights of the Child	November, 1989
ICRMW	International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families	December, 1990
CPED	International Convention for the Protection of All Persons from Enforced Disappearance	December, 2006
CRPD	Convention on the Rights of Persons with Disabilities	December, 2006

The various treaties and declarations emphasize equality under the law for all people. “All people” seems initially to have been too vaguely defined, so treaties were gradually added specifically to restrict racial discrimination, discrimination against women, then children, then migrants, and most recently the disabled. And what substantive rights are included? A short, critical list includes due process; property rights; religious freedom; freedom of thought; freedom of speech; freedom of assembly; freedom of association; freedom to move across national borders; rights to work without being enslaved or indentured; and rights to food, shelter, education, and preservation of life. They are an encouraging list of dos and don’ts covering everyone and zooming in specifically on vulnerable groups. If obeyed, these treaties and the rights they encompass would surely make the world a better place. That they are not universally obeyed is evident. That some of the clarifying declarations obfuscate where they should clarify is less evident but politically fundamental.

The Vienna Declaration, for instance, emphasizes the equal status of each of the long list of rights so that one should not be given greater weight than another. It also states that “the existence of widespread extreme poverty inhibits the full and effective enjoyment of human rights; its immediate alleviation and eventual elimination must remain a high priority for the international community.” This idea of equality especially between civil and political rights, on the one hand, and economic rights, on the other, has become a focal point of human rights discussion. It seems eminently good and desirable, but as we will see, it is also a valuable smokescreen for dictators who wish to excuse their human rights abuses.

It is hard to disagree with the sentiment that alleviating and eliminating poverty are highly desirable goals, but the rhetorical thrust of the declaration is different; it contends that poverty prevents the full and effective enjoyment of human rights. This contention that poverty inhibits human rights can be interpreted benignly or it can be used—and is used—to make false causal arguments about fundamental political and civil rights as set out in the treaties listed in [table 9.1](#) as well as other human rights documents. Here we can see the hand of politics at work in the use and abuse of human rights for narrow political ends. Here we have a prime example of how easily many are swept up by clever rhetoric as if the rhetoric were equivalent to carefully crafted logical arguments backed by rigorous evidence. The consequence is many end up backing claims that inhibit both the alleviation of poverty and

the promotion and protection of human rights!

IS POVERTY A CREDIBLE ARGUMENT AGAINST THE ENJOYMENT OF HUMAN RIGHTS?

Among political and civil rights, I put special emphasis on freedom of speech, freedom of the press, and freedom of association and related freedoms that make it easy for disgruntled people to organize and coordinate to express their displeasure with government. In short, I emphasize those rights that are fundamental to the attainment of a large-coalition democratic government whose leaders are compelled by their large coalition to rule for the people or at least many of them. We should not be surprised to learn that sometimes self-serving leaders and even well-intentioned people argue that, as desirable as these rights are, they are **luxury goods** that must take a backseat to the economic rights set out in the various UN declarations. By labeling these rights as luxury goods they are put in an unequal position with other rights, put, as it were, on the back burner. The contention is that only rich countries with a well-educated population can afford to extend these rights to their citizens. As we saw previously, the Vienna Declaration claims, “The existence of widespread extreme poverty inhibits the full and effective enjoyment of human rights.” That is interpreted by authoritarian leaders as license to postpone the promulgation of the core rights to which I have referred until their country escapes poverty since, so they say, extreme poverty inhibits the enjoyment of these rights. Yet we know that with a few exceptions, authoritarianism generally encourages corruption and economic redistribution from the poor to the winning coalition’s members who then become rich. In this way, authoritarian leaders generally promote the very national and individual poverty that they use as an excuse for not permitting core freedoms (Acemoglu and Robinson 2005, 2012; Bueno de Mesquita et al. 2003; Bueno de Mesquita and Smith 2011).

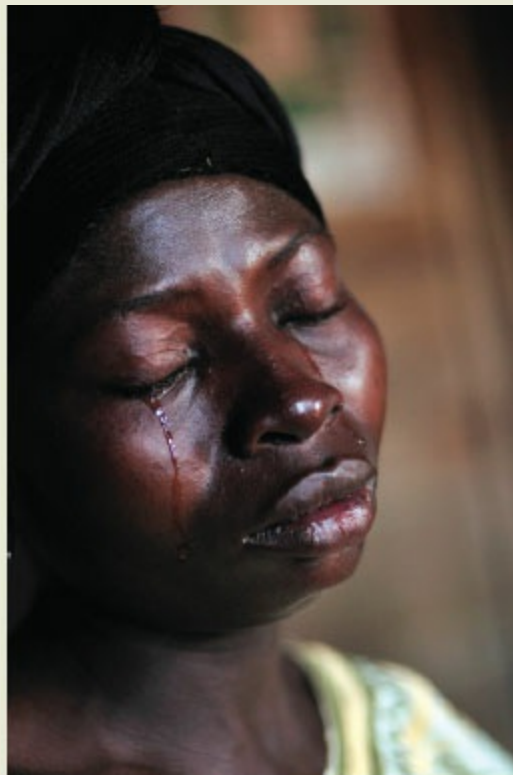
For poorer nations, so the argument sometimes goes, the fundamental rights are to food, health, and shelter. This is a superficially appealing argument in that it is hard to imagine a more fundamental necessity for the preservation of life than nutrition and a roof over our heads. But the argument is truly superficial because it implicitly proposes a false trade-off: Shall we have free speech or better nutrition? Shall we have freedom of assembly or

better shelter? Shall we have a free press or health care? Here we see a pernicious use of the argument that “the existence of widespread extreme poverty inhibits the full and effective enjoyment of human rights.” The implied direction of causality is false or at least misleading. The right to free speech, free press, and freedom of assembly—collectively, the right, spelled out in each treaty and declaration, to live in a society governed on the basis of self-determination—helps alleviate poverty; wealth is not the cause of freedom, it is a consequence. By way of a simple illustration of this point, let us remember the distinction between necessary conditions and sufficient conditions. Is wealth necessary or sufficient for these fundamental freedoms? Certainly not! These freedoms are in short supply in the oil-rich monarchies of the Middle East or the increasingly autocratic, oil-rich governments in Russia and Venezuela, as well as many of the diamond-rich states of Africa. Wealth apparently did not result in the promotion of these basic freedoms. Wealth is not a sufficient condition for democracy’s core freedoms.

The core freedoms have generally thrived in India across decades of poverty and have contributed, through the ballot box, to the election of successive governments committed to India’s economic growth over the past twenty years. The voters spoke, and India has enjoyed for many years (although slipping as of late) a growth rate near the top in the world and with it rising incomes and poverty alleviation all coming with freedom already in place long before the defeat of poverty. India shows us that wealth is not necessary for democratic freedoms. The idea of free speech, free press, and free assembly—democracy, in short—as luxury goods is misguided and dangerous, and there are powerful arguments in logic and evidence against this view.

First among the reasons not to embrace the notion that basic civil liberties and political rights are luxury goods is that these rights are cheap and luxury goods are expensive. It is much cheaper to allow a free press and free speech than to utilize censorship. Freedom of assembly can be a bit costly because police or other security forces are required to avoid clashes between groups with different points of view. But the prevention of free assembly is much costlier. It takes much more force to stop people from demonstrating than to protect their right to do so. Suppressing free assembly requires paying loyal government-backers enough to break up crowds of people, bashing heads if necessary as has been seen repeatedly in Syria and Iran even as people peacefully demonstrated to advance their interests.

Second, it is a statistical fact that countries that provide the core democratic freedoms also do a good job on housing, nutrition, and health care when compared to most regimes that suppress these freedoms. They do so by promoting prosperity with which people can acquire these important benefits and by providing a social safety net for those unable to earn enough to secure proper nutrition, health care, and shelter on their own. The causality seems to run from freedom to these other benefits, rather than from these benefits to eventual prosperity and freedom as maintained by the Vienna Declaration. Let's have a look at the facts.



Bibane, 28, weeps as she talks about her kidnapping and rape experience at a center in Walungu, South Kivu Province, Democratic Republic of Congo (DRC), on April 14, 2008. Bibane was kidnapped and raped by three men over the course of three days in a forest in South Kivu. As a result of the incident, she is now HIV positive and has recently just lost one child to death from malnutrition; three children remain in her care. On average, 400 women per month were estimated to be sexually assaulted in the autumn of 2007 in eastern DRC. In the first months of 2008, that figure dropped to an average of 100 women per month. While this may be seen as a significant decrease, it is worthwhile noting that many women never make it to treatment centers and are not accounted for in these statistics.

To those who believe that prosperity can be had without freedom, I say, yes, but often at great costs to citizens in their opportunities to be informed, to move about, to associate with their fellow citizens, or to articulate dissatisfaction with the government's policies. To those who say that prosperity leads inevitably and swiftly to freedom, I say look at history and you will know this is false (Bueno de Mesquita and Downs 2005). China has enjoyed spectacular economic growth for decades with little evidence that its burgeoning middle class is transforming China's leaders into democrats. Naturally, it is not enough to assert these claims or to offer an example here and there. We must prove them. That is exactly what I propose to do.

WHY PROMOTE FREEDOM RIGHTS? SOME USEFUL FACTS

The set of human rights on which I am focusing can all be seen as elements behind the promotion of democracy. Recall that the UN declarations on human rights emphasize the right of citizens to self-determination in choosing how they are governed and by whom. To exercise self-determination meaningfully, people must be able to exchange ideas—freedom of speech and freedom of the press—and they must be able to come together to share their views—freedom of assembly. Arguments against these democratic rights are almost as common and as forcefully made as arguments for them. The idea that democracy is particularly desirable would certainly have seemed odd to many profound political theorists two or three centuries ago. After all, just two or three centuries ago democracy was perceived as possibly the worst form of government, as close to having no government as one could get. The idea that ordinary, often uneducated, even illiterate people might determine the fate of their nation was seen as absurd. Even the American founding fathers differed greatly on this subject, with some—Alexander Hamilton, for example—arguing for an elective monarchy or, at least, a president for life. Yet democracy has proven itself time and time again as the most reliable means to ensure government for the people with the core rights that implies.

Consider that all but two (the United Arab Emirates [UAE] and Singapore) of the twenty countries with the highest per capita incomes in

2009 are liberal democracies, meaning governments that depend on a large coalition drawn from a large selectorate and that ensure the exercise of free speech, free assembly, and a free press.¹ Their average coalition size—from 0, the smallest, to 1, the largest—is 0.94. Some of the richest people in the world live in tiny countries with tiny populations, like Iceland and Luxembourg. But others live in countries with vast populations—the United States or Japan—while others live in expansive territories with relatively modest populations, like Canada or Australia. Some of the wealthiest people live in religiously homogeneous societies like Denmark or Japan, but others reside in religiously heterogeneous nations such as Australia or the United States. Many of the richest countries are in Europe, but others are in Asia, North America, or Oceania. Some were imperial powers like Britain and France; others were themselves colonies like Canada or New Zealand. Locale, culture, religion, history, and size all vary greatly among the rich, but their broad respect for basic freedoms is the same.

It is worth noticing who is not on the list of the richest people in the world on a per capita basis. By and large, with a few exceptions, the nondemocratic–oil-rich lands with money just waiting to be pulled out of the ground only manage to locate themselves in the middle of the pack. Their citizens are not poor, but neither are they especially wealthy. Strikingly, oil-rich Iran ranks down around 85th in per capita income—substantially worse than Chile, Brazil, or Argentina. We already have a good idea from [chapter 2](#) why it is that Iranians are not rich and why an abundance of valuable natural resources can be a curse rather than a boon to ordinary citizens. Their government does not promote free speech or a free press or freedom of assembly. Their leaders depend on a small coalition to keep them in power, and that means they redistribute wealth from the poor to their loyal backers who grow rich thanks to the heavy use of private rewards rather than public goods to keep their coalition content.

What about the poorest of the poor? What do they have in common? Overwhelmingly, the twenty poorest countries in the world are decidedly not democratic. Their average coalition size score is 0.54—0.40 points less than the twenty richest countries. These countries have poor records in permitting civil liberties or political rights. Life expectancy at birth is only about forty-five years—more than thirty years less than in the top twenty countries on per capita income—making these poorest, nondemocratic countries miserable places where ordinary citizens are bereft of a decent life just as they are bereft

of the freedom to choose their leaders or their form of government. These examples illustrate the point that the freedoms that come with a large-coalition government encourage prosperity rather than the other way around, but I reiterate: picked examples are not firm evidence. Let's have a look at some hard evidence. We will want to find out three things to see whether the claims I am making are consistent with the record of what we observe in the world. First, I have claimed that the core freedoms lead to democracy—that is, to a government that depends on a large winning coalition and so must produce good policies if its leadership is to survive in power. Second, I have claimed that the fundamental political rights and civil liberties that collectively form the human rights outlined in the various declarations and covenants cited previously themselves lead to greater prosperity. And third, I have claimed that greater prosperity does not inherently lead to improved human rights. Each of these claims can be tested using information about virtually all the countries in the world from 1960 through 2009, the most recent year for which the data are available.

I start with a simple enough question: Are shifts toward a large coalition, democratic form of government encouraged by increases in per capita income and increases in human rights? To answer this question, I look at the change in per capita income from five years ago to one year ago (as measured by the World Bank) and compare it to the change in coalition size from four years ago to the current year so we are comparing changes with a one-year lag, using the measure of coalition size detailed in Bueno de Mesquita et al. (2003). I do the same for human rights, measured as the product of Freedom House's measures of civil liberties and political rights, each arranged so that higher values mean greater regard for human rights. Again I look at the change from five years ago to one year ago to see how it influences subsequent changes in per capita income. We can see in [table 9.2](#) that increasing human rights also leads to increased coalition size and that the effect is overwhelmingly unlikely to have arisen just by chance. The statistical evidence strongly encourages confidence in the idea that increased regard for human rights produces more accountable government. The evidence, however, does not support the idea that alleviating poverty has the same effect. The odds that an increase in per capita income is followed by an increase in governmental accountability is practically the same as the flip of a coin. There is a 42 percent chance that the association between change in per capita income and subsequent change in coalition size, controlling for

changes in human rights, is just due to chance.

This takes us to the second critical question. Does poverty reduction lead to improved “full and effective enjoyment of human rights”? The answer is astonishing for its strength, and sadly, the answer is an emphatic NO! I have highlighted the answer in [table 9.2](#). Growth in per capita income is very strongly associated with a *decrease* in human rights and the odds that the relationship is not meaningful is about one in a thousand. As societies that are not democratic get richer, there is a proclivity to diminish respect for human rights. Perhaps as a society grows wealthier the people become fat, happy, and complacent. We will look more closely at why this might be so when we turn to foreign aid and what economists call the **resource curse** in [chapter 12](#). Then we will form a better understanding of this depressing fact.

TABLE 9.2 Poverty and Human Rights: A Statistical Scorecard

	Change in Coalition Size from Four Years Ago to the Current Year (Direction of Effect, Probability it Happened by Chance)	Change in Human Rights from Four Years Ago to the Current Year (Direction of Effect, Probability it Happened by Chance)	Change in Per Capita Income from Four Years Ago to the Current Year (Direction of Effect, Probability it Happened by Chance)
Change in Human Rights from Five Years Ago to One Year Ago	Positive, 0.000	Positive, 0.000	Positive, 0.062
Change in Per Capital Income from Five Years Ago to One Year Ago	Positive, 0.424	Negative, 0.001	Positive, 0.000

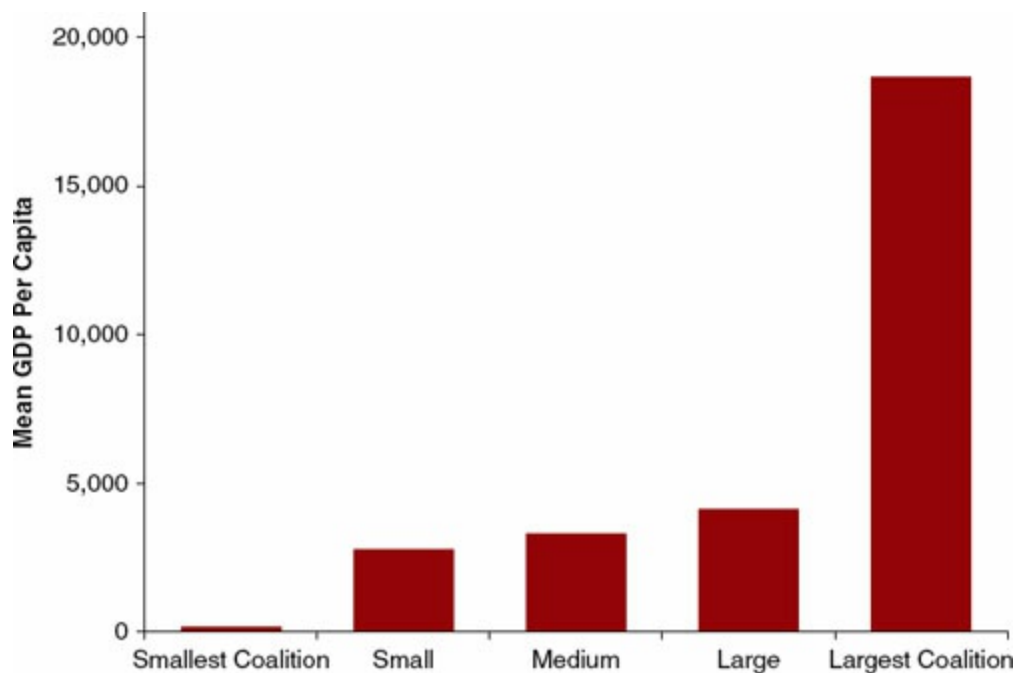
Note: These results are derived from regression analysis that includes country fixed effects to correct for any unspecified features of individual states. It is based on all available data for the years 1960 to 2009. Each analysis is based on more than 4,600 country-year observations. I also tested numerous alternative specifications to check robustness.

The final column in [table 9.2](#) flips the second question on its head, asking whether changes in per capita income are stimulated by improvements in human rights. The answer is a cautious yes. The odds that the statistical relationship is significant between earlier shifts in human rights and later changes in per capita income is 0.062 or, based on a directional test (since we predicted that human rights enhance per capita income) 0.031, strong enough to take seriously. And this effect, as expected, is positive. [Figure 9.1](#) gives us another and striking way to ask this question. [Figure 9.1](#) looks at average per

capita income, dividing the countries of the world in 2009 into five categories based on the size of their winning coalition five years earlier—in 2004. As the figure makes evident, those with the smallest coalitions have the lowest per capita income; those with the largest coalition have the highest per capita incomes by a wide margin. Incomes generally improve as we go up the coalition-size ladder but most dramatically when we reach the top. Thus the evidence is that growth in human rights greatly improves governmental accountability and that accountability plus human rights improve poverty reduction. Poverty reduction does not improve human rights!

Improving a government's regard for human rights seems, not surprisingly, to produce important benefits. Naturally, that makes us want to know how to improve governmental respect for human rights. This concern draws our attention to the linkage between the desire to improve respect for human rights and the potential benefits conferred by making human rights a critical topic for international law and its treaties. What we want to know is whether international law improves human rights or merely codifies already existing human rights practices. There is much theorizing on this question and a growing body of evidence as well. Let's see what each suggests.

FIGURE 9.1 Coalition Size in 2004 and Per Capita Income in 2009



DOES INTERNATIONAL LAW OR NORMS IMPROVE HUMAN RIGHTS?

The degree of influence that international law and international regimes exert on the actions of nations is difficult to resolve, primarily because the structure of institutions and the choice of rules and regulations are all endogenous. Neither international law nor any specific organization arises spontaneously or by chance. They are the consequence of negotiated agreements among leaders of states. Thus, it is difficult to separate the interests that these leaders represent from the choices they make regarding the structures of international organizations and rules. Certainly it is unlikely that they would agree to structures that constrain their behavior in ways that are contrary to their interests—but if that is so, then international regimes, rather than influencing national actions, just reflect preexisting interests. In that case, we should expect to observe a positive relationship between the act of signing an international human rights treaty, especially as an original signatory involved in the design of the agreement's contents and respect for the treaty's requirements. That correlation, however, does not inherently suggest that the act of signing altered respect for human rights (Downs, Rocke and Barsoom 1996; Cherif 2005, 2010; König and Luetgert 2005; König 2007; Lupu, forthcoming). The positive correlation could just mean that there is a selection effect. Those who sign, especially founder-signatories, already respect human rights and, of course, they continue to do so after signing. Those who do not sign on at least at the outset more likely have already worked out that they have no intention of respecting human rights and don't need the headache of saying otherwise. Latter-day signatories might just reckon that there is little cost in signing on, engaging in cheap talk if they have had enough time to discover how effective or rather ineffective enforcement is. That is the cynical, strategic perspective on human rights treaties, but there are alternative views.

There are important counterarguments that support the opposite conclusion—that international law, rules, and regulations alter behavior rather than just reflecting national (leader or regime) interests (Davenport 1995, 1999, 2007; Poe and Tate 1994; Poe, Tate and Keith 1999). Beth Simmons (2009), for instance, looks carefully at the argument that governments might ratify treaties in the hope of gaining some advantage while escaping pressure to comply with the treaty's requirements. She

concludes that governments that ratify human rights treaties improve their respect for such rights and that, therefore, international law deserves greater respect as an instrument for improving human rights. Lupu (forthcoming) looks even more carefully, however, and concludes that Simmons' optimistic view needs some modification. He notes that international human rights agreements are positively associated with their signatories' behavior just as Simmons and others argue. But he also notes that the direct effect of signing is much weaker than the impact of **revealed preferences** for human rights. He shows that we can use each country's prior history of treaty signing to estimate its preference for respecting human rights. Once Lupu corrects carefully for this selection effect he shows us that the impact of international law as an instrument for improved human rights behavior is much weaker than Simmons and others infer. To better understand these and other arguments, let us explore the logic behind them.

Human Rights: The Constructivist Case

Constructivists argue that the very content of a country's national interest can be redefined by its membership in an international organization or its ratification of an international treaty. Constructivists hypothesize that there are three factors at work: (1) legitimation, (2) role redefinition, and (3) reflection. The argument for regime legitimation maintains that, when members comply with an organization's mission, the members endow the regime's rules and regulations with authority and legitimacy. Oren Young and Marc Levy (1999), for example, maintain that organization members do not engage in the kind of cost-benefit calculations that characterize strategic behavior because they have internalized the regime's routines, and they have been socialized to accept them. Little evidence, however, is offered to bolster this claim, and as we learned in the introduction, considerable evidence challenges these predictions (Cherif 2005, 2010; König 2007; Lupu, forthcoming). Among the unanswered questions about the constructivist case is why a member of an international regime would see the regime's rules and regulations as being either legitimate or authoritative if they run counter to the interests of the state or its leadership. George Downs (2000) suggests there is evidence that states do not see rules and regulations as inherently legitimate in the case of environmental regimes. Helm and Sprinz (2000), like Lupu, but in their case in the context of environmental policy, find that

regimes and international institutions have a positive, but relatively weak beneficial effect. As we saw earlier, Feryal Cherif (2005, 2010) shows much the same thing in her investigation of the role women play in the political life of countries that are signatories to the 1979 UN CEDAW.

Role redefinition, the creation or changing of a nation's or decision maker's identity as a function of the part the nation is assigned in an international organization or series of interactions, is also hypothesized to be a factor in redefining national interests. The idea is that organizations, being complex, assign different roles to different actors and these organizational roles can affect subsequent policy positions. For example, Japan was thrust into a leadership role during the environmental negotiations leading to the Kyoto Protocols. The country took a stronger pro-environmental stance than it had in earlier negotiations, perhaps because its new role gave it a new identity. From a strategic perspective, Japan changed its position perhaps because it realized that US opposition would defeat the Kyoto proposals anyway, and so it could safely say it supported them, collect the good press for doing so, and still get the same result it had wanted all along (nonpassage or nonenforcement of the proposals) without having to go out on a limb by declaring itself to be opposed. In fact, contrary to constructivist expectations, the Japanese government subsequently admitted that it could not meet the greenhouse gas emissions reductions it promised to make as part of the Kyoto Protocol.

Alexander Wendt (1994) contends that the roles a nation plays in international organizations gradually create a new identity for the state as it associates itself with the role in which it has been placed. This new identity, in turn, promotes new interests, thereby redefining the national interest. Of course, organization members agree to accept particular roles, selecting in or out of treaties and associated organizations (Lupu, forthcoming). This means that it is difficult to distinguish between a true change in national identity and the acceptance of roles as part of an endogenous, negotiated process that reflects national or individual leader interests. The idea of role redefinition is intriguing. Selected case studies lend credence to the idea (Weiss and Jacobson 1998), but systematic tests by Lupu, König, and Cherif in the human rights arena, as well as Downs' and Helm and Sprinz's investigations in the environmental domain, contradict or greatly mute the impact of role redefinition.

The idea that member states, through the process of interaction within an

organization, learn to see themselves as others see them is called reflection. This is hypothesized to be in part a direct process and in part an indirect process. The more a country realizes that other countries perceive it as cooperative or as obstreperous, for example, the more that reflected perception leads to reinforced or changed behavior. Furthermore, the more a country behaves cooperatively, the more likely it is that other countries change their views and reflect back its new image as a cooperator. That reflected improvement in perceptions, in turn, is hypothesized to lead to or to reinforce changes in behavior and in self-definition.

Such a psychological process may go on, but we do not yet have the evidence we need to conclude that reflection takes place and changes self-identity or interests (Wendt 1994). George Downs (2000), in fact, provides a thoughtful review and critique of the constructivist perspective about international organizations and their prospects for promoting changes in the national interest and in cooperation. He puts forward example after example in which such changes do not appear to have occurred. Furthermore, even if such changes in outlook occur for the agent representing a given government in an organization, it is not clear why the leadership of the country would maintain the representative in office.

TRY THIS

The Kyoto Protocol went into effect in 2005 despite US opposition. This provides a natural experiment in which we can test Japan's, or any other signatory's, commitment to changing its behavior. Find data on Japanese emissions over time of the noxious gases covered by the protocol. Are the observed results for Japanese emissions better than, the same as, or worse than they were before the Kyoto Protocols went into effect? Check whether the rate of decline (or increase) in such emissions has accelerated now that the protocol is in effect compared to before the protocol. Make this assessment again for US emissions. How do the Japanese emissions compare to US emissions during the same time period?

If a representative's orientation is out of alignment with the national leadership's perception of the national interest (however conceived), then it

seems likely that the representative will be replaced. In such a circumstance, there is an agency problem; that is, the principal (the person or citizenry for whom the representative works) is not getting support from the agent (the subordinate or representative) that is expected. The nation's leaders will retain such a representative only if the representative's actions do not deviate so much from their own interests that they feel the cost of retaining the representative is too high. In that case, however, with only small deviations allowed, the national interest has not been materially changed. Thus, the constructivist notion of reflection could be true in influencing small, marginal changes within the confines of what the principal-agent relationship will tolerate. It seems unlikely to be true as it regards a material shift away from the national interest—however the national political leadership defines that interest. It is hard to tell empirically whether any change in the national interest has taken place because reflection must fall within the presumably narrow bounds of tolerance that the principal has for any shifts in approach that his or her agent in an international organization may make. Testing whether such reflection occurs at all or whether deviations from the wishes of the leadership back home are just indicative of the routine latitude of agents with special knowledge is a daunting but critical empirical question. In this particular instance, neither the constructivist nor the principal-agent account can be easily falsified.

The Strategic Case

The strategic perspective helps us see that what constitutes the national interest can be manipulated by individual political leaders. They build coalitions around interests and can link issues together so that many different winning coalitions can be formed. Indeed, even a supermajority of relevant constituents can be assembled in favor of widely divergent and even contradictory policy stances through skillful political maneuvering, just as we saw in the introduction. As we know, for instance, when issues are linked together (guns and butter, trade policy and national security policy, foreign aid to alleviate poverty and foreign aid to gain policy compliance), the median voter theorem no longer holds. Winning coalitions can be formed that support virtually any change from the status quo policies, making what defines the national interest utterly manipulable. Observers might mistake the policies of any of these coalitions as being deviations from the national

interest, but such deviations can arise only if the national interest is assumed to have some specific content as opposed to being viewed as a product of strategic maneuvering and bargaining.

Skillful political leaders can shape the focus of the national interest on issues and policy positions that are advantageous for them because many different majority coalitions can be assembled by using linkage politics—that is, tying choices together across multiple issues as in win set analyses (introduced in [chapter 3](#)). This suggests both strengths and limitations to the influence that international agreements or organizations can have. Leaders come and go. Few leaders of democracies last even as long as five years; autocrats last longer, but few even among autocrats survive in office beyond a decade or two. International treaties and associated organizations commonly survive several generations of national leaders. The North Atlantic Treaty Organization (NATO), for example, was formed in 1949. Each member country has undergone many, many domestic turnovers in political leadership during the more than sixty years since NATO's creation, yet NATO's fundamental rules remain the same. The Treaty of Westphalia was signed more than 350 years ago, yet many of its specifications regarding sovereignty—that is, the right and authority to rule within a specified, usually geographical domain—remain relevant to international interaction today. Human rights have been enshrined in treaties for decades, yet we still see torture, discrimination, and abuse of every fundamental right. Even governments, like the US government, with a longstanding explicit commitment to human rights arguably have violated the treaty against torture because its leaders felt doing so was expedient after 9/11. These examples remind us that international law and international organizations are not as ephemeral as are the terms in office of political leaders or as their view of the national interest or the ease with which they overlook human rights when it proves politically convenient. Longevity for an institution is not the same as impact.

Organizations and law are sticky; by this, I mean that it takes large changes in the interests of member states before it is worthwhile to make substantial changes in the structure of law and organizations. The costs associated with change often exceed the expected benefits. In this way, international bodies are much like a factory. Business owners do not tear down their factories and rebuild every time there is an improvement in technology. The cost of doing so is just too high; they live with some

inefficiency in their factories rather than bearing the cost of change. Only when the inefficiency becomes too costly do business owners tear down and rebuild. So it is with international organizations or law even in as crucial a domain as human rights. New leaders come to power and find that some of the organizations or rules that their predecessors endorsed are not optimal for their purposes. Still, the organizations may provide enough benefits or small enough costs that the new leaders can live with them rather than try to make politically costly changes or withdrawing from the organizations.

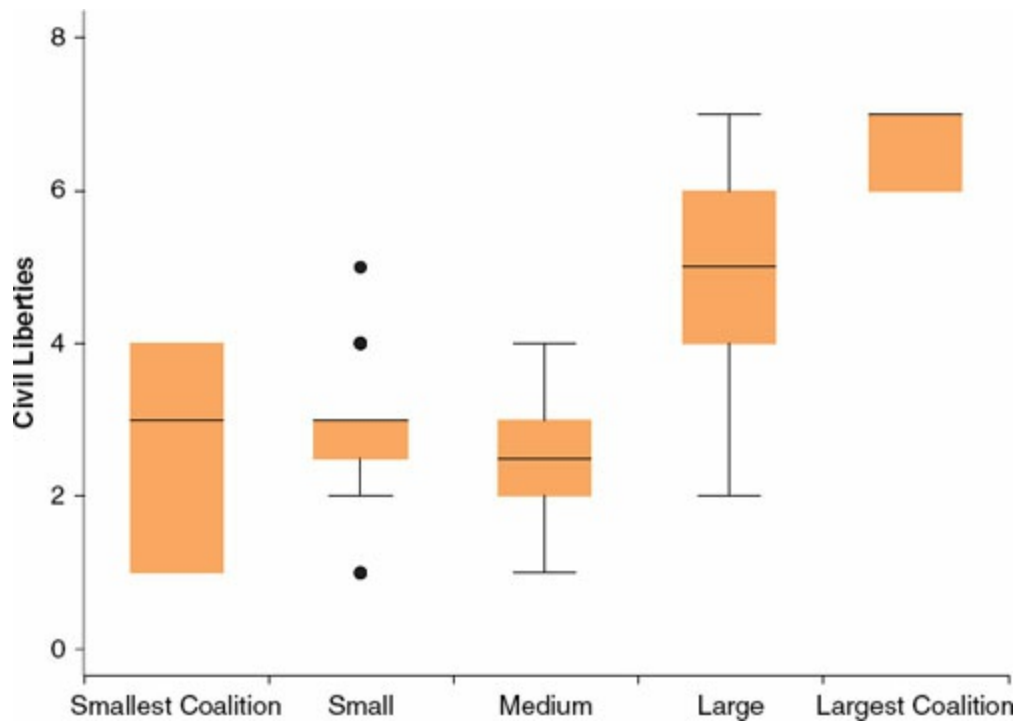
The stickiness of international organizations has a deeper strategic implication. The decision to form or belong to international institutions that protect, for instance, human rights is, as noted, endogenous. Political leaders make a strategic choice, presumably designed to enhance their own or their political party's prospects of remaining in office and to ensure that, should they lose their position, their policy preferences will persist. This is the essential logic behind Lupu's (forthcoming) powerful finding that international human rights organizations and laws reflect prior preferences rather than altering behavior. By forming or accepting the rules of an international organization or by endorsing a body of international law, current leaders impose these rules and laws as constraints on subsequent leaders. The value in imposing constraints on subsequent leaders, according to the strategic perspective, depends on the expected frequency of, intensity of, and uncertainty about deviations in the ideal points of future leaders.

As we know, political leadership turns over more frequently in democracies. There are, therefore, more opportunities for someone to come to power whose coalition's interests deviate from those currently in place. Autocrats, in contrast, tend to stay in office considerably longer; consequently, autocrats face less uncertainty about policy shifts because they will be in office longer and be able to sustain their own policy objectives. However, leadership transitions in autocracies tend to lead to bigger policy swings than in democracies where the weight of the median or mean voter looms larger. Thus, more opportunities for policy shifts arise in democracies than autocracies but the shifts are constrained to occur in a relatively narrow policy space. Democrats cannot easily go from respecting human rights to violating them. Autocratic can maneuver all over the place following leadership transitions. Such positive swings on human rights, however, are unlikely, given small-coalition interests.

International organizations and international laws are arguably more

valuable to the leaders of democracies because the cost of abandoning the law or organization in the future constrains future leaders to adhere to the policies, rules, and regulations already in effect (Gartzke and Gleditsch 2002). And, indeed, democratic governments are far more respectful of human rights than are small-coalition autocrats. [Figure 9.2](#) shows just how strongly coalition size (the horizontal axis) is correlated with respect for human rights (the vertical axis, which is Freedom House's civil liberties variable inverted so that higher values mean greater civil liberties). The boxes reflect a standard deviation above and below the mean respect for human rights as a function of the specific range of coalition size estimated as a five-point scale from smallest coalition (0) to largest (1). The solid line within each box is the median level of respect for human rights among governments within the indicated coalition-size cluster and the dots reflect outliers. It is evident that the three smaller-coalition size groupings all have low regard for human rights. The second largest coalition grouping does much better and the most democratic, largest coalition regimes are at the top of the heap in respect for civil liberties and political rights. Human rights, as we saw in [table 9.2](#), help promote larger-coalition governments and large-coalition governments sustain a high degree of compliance with the fundamental human rights enshrined in the key treaties.

FIGURE 9.2 **Respect for Human Rights and Coalition Size**



SOVEREIGNTY: THE CASE AGAINST HUMAN RIGHTS

Before concluding, we should play the devil's advocate at least for a bit. I suspect that just about everyone reading this chapter shares with me the conviction that promoting respect for human rights is a fundamental goal whether it is advanced through international law or by other international means. But those governments that disregard human rights, and even some that generally respect individual rights and freedom, are not without arguments grounded in international law. The US government, for instance, declined to ratify the UN treaty against genocide for many decades on the grounds that some of its specific terms violated US sovereignty. Not signing a treaty against genocide makes for an awful headline, but it is not without careful reasoning behind it. Therefore, we should give proper consideration to the argument that human rights is a strictly domestic affair and none of the business of the international community. This is the very argument made over and over again by the government of China when American presidents, cabinet members, and Congress insist on China freeing this or that political dissident on the basis of its obligations under the human rights treaties it has

ratified. The Chinese point to a substantial and venerable body of law to justify their actions, claiming that they adhere to the treaty obligations they have signed and noting that their handling of dissidents is a matter of their internal affairs.

To see the foundation of the argument for drawing a line between international affairs and domestic affairs, it is useful to go way back to the Treaty of Westphalia, signed in 1648 to bring the Thirty Years' War to an end. The Treaty of Westphalia established essential elements of international law regarding sovereignty and is considered so important that it is said to mark the beginning of the modern international system (Waltz 1979). Let us examine two articles of that treaty. Article 64 states the following:

And to prevent for the future any Differences arising in the Politick State, all and every one of the Electors, Princes and States of the Roman Empire, are so establish'd and confirm'd in their antient, Prerogatives, Libertys, Privileges, free exercise of Territorial Right, as well Ecclesiastick, as Politick Lordships, Regales, by virtue of this present Transaction: that they never can or ought to be molested therein by any whomsoever upon any manner of pretence.

Article 67 states the following:

That as well as general as particular Diets, the free Towns, and other States of the Empire, shall have decisive Votes; they shall, without molestation, keep their Regales, Customs, annual Revenues, Libertys, Privileges to confiscate, to raise Taxes, and other Rights, lawfully obtain'd from the Emperor and Empire, or enjoy'd long before these Commotions, with a full Jurisdiction within the inclosure of their Walls, and their Territorys: making void at the same time, annulling and for the future prohibiting all Things, which by Reprisals, Arrests, stopping of Passages, and other prejudicial Acts, either during the War, under what pretext soever they have been done and attempted hitherto by private Authority, or may hereafter without any preceding formality of Right be enterpris'd. As for the rest, all laudable Customs of the sacred Roman Empire, the fundamental Constitutions and Laws, shall for the future be strictly observ'd, all the Confusions which time of War have, or could introduce, being remov'd and laid aside.

These two articles provide, in modern parlance, for states to be secure within their borders. The sovereign government within a state is free to make its own rules and regulations regarding virtually every aspect of its citizens' lives, including, as the Chinese government is quick to point out, their political rights and duties.

Regardless of how repugnant some internal governmental activities may be to outsiders, the expectation established in these articles is that outsiders have no right to interfere in the domestic affairs of other states. It is a view reinforced in the UN Charter, [chapter 1](#), article 2, paragraph 7:

Nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the Members to submit such matters to settlement under the present Charter; but this principle shall not prejudice the application of enforcement measures under Chapter VII.

[Chapter 7](#), the caveat at the end of the quoted passage, refers to enforcement of decisions by the Security Council when there are threats to peace.

International Borders as Institutions

The two articles of the Treaty of Westphalia, like the passage quoted from the UN Charter, establish essential principles of international law and practice that are still observed to this day. Article 64 is intended to bar foreign rivals from interfering in the sovereign's rights within his or her territory. Article 67 reinforces this point, emphasizing that the sovereign has full jurisdiction over all matters within the borders of the state. In this way, territorial borders are created as an institution of international politics, an institution with standing in international law. That law, of course, is the treaty itself. States are granted the right to defend their actions and privileges within their borders. Other states do not have the right to cross a country's border and impose their will on the sovereign territory of another government and people. In practice, this means that the law defining sovereignty and reinforced in the UN Charter, runs head-on against efforts to enforce human rights obligations. The treaties intended to protect human rights are able to monitor violations and, on very rare occasions, can use the UN International Court of Justice to enforce the

rules but implementing punishments against governments—at least while they hold power, is all but impossible.

Whatever effect international law has had on the sanctity of borders, it is clear that most people most of the time oppose on principled, normative grounds the use of aggression to violate sovereignty. In this way, the law has reinforced a norm of conduct. So strong is the normative belief that the citizens of a state have the right to be secure within its borders that the violation of such borders is perceived generally as unwarranted aggression. Yet the law regarding sovereign rights within borders also has the morally reprehensible consequence of giving cover to violators of human rights. The defense of sovereign rights is also the defense for violating human rights!

Consider the case of ethnic genocide. Under the leadership of Pol Pot (1976–1979), the Cambodian government engaged in genocide against its own people. Nearly 2 million Cambodians were killed during Pol Pot’s reign of terror. Neither the United Nations nor the United States nor anyone else other than Vietnam intervened against Pol Pot’s genocide, ostensibly because there was no basis in international law to do so. The reasoning was as simple as it was troubling. The Pol Pot regime was exercising its right to do whatever it chose within its own borders. The Cambodian government, in keeping with Article 67 of the Treaty of Westphalia and article 2, paragraph 7 of the UN Charter, was acting with “full Jurisdiction within the inclosure of their Walls, and their Territories.” The United Nations, then, seemingly had no jurisdiction. Just as the law gave Pol Pot his rights in Cambodia, the law denied to the nations of the world the right to intervene to save the people of that country. Vietnam eventually did intervene, deposing Pol Pot in the process and receiving a condemnation from the United States and other countries for violating the sovereign territory of Cambodia. Human rights may be enshrined in treaties, but the ability to enforce those treaties is severely limited.

Breaking Down the Unitary Actor View Can Improve Human Rights

As the world becomes more democratic, it may be that it is harder to sustain the old norms that favored thinking of states as unitary sovereigns. The more we think about state policies as the aggregation of individual interests, the more likely we are to elevate the importance of individuals over collective

ideas such as “the state.” Thus, newly constructed values in favor of individual welfare over the collective national welfare might gain greater importance. Democratic practices place great emphasis on individual interests, whereas authoritarian arrangements compress the state and the dictator into a single actor. When the state is seen as a unitary actor, it is difficult to sustain a norm that addresses the welfare of individual constituents. If we consider state policies to reflect aggregated individual preferences, then the constructivist focus suggests that norms and values are likely to be reshaped, becoming attentive to individual welfare. The strategic perspective, then, identifies the circumstances under which those governments that are so inclined can act to enforce these reshaped norms that place value on individual welfare.

SUMMARY

The central theme of this chapter has been that international laws, regulations, norms, and organizations may help induce respect for human rights but they cannot be counted on to do so. Rules, regulations, and structure are likely to be the product of strategic maneuvering. As such, they are more likely to reflect national or individual interests as defined at a given moment than they are to be the factor that shapes national or individual interests. Still, organizations are sticky. Once created, they are hard to get rid of, so they can help tie the hands of leaders or increase the costs of deviant behavior.

A high level of compliance with international rules and regulations should not be mistaken for evidence that law or norms are inherently effective in altering behavior. Selection effects permeate international treaties and declarations on human rights. Prior revealed preferences about human rights—as indicated by prior treaty agreements—are more powerful predictors of compliance with human rights treaties than is the ratification of the treaty itself. The level of compliance, just like the design of monitoring and enforcement mechanisms, is likely to be endogenous. Treaties are unlikely to include rules that members are unwilling to follow unless the organization designed to enforce the treaty has few effective means to monitor compliance and punish deviant behavior. As a consequence, many human rights agreements are likely to be shallow or weak, either making compliance easy or punishment difficult. Decisions that would effectively

alter behavior undoubtedly exist, but they may be relatively rare.

Arguments that offer poverty as an explanation for limited respect for human rights are bogus. They are the self-serving propaganda of dictators. Core freedoms are not luxury goods to be enjoyed only after attaining prosperity. Rather, we saw that respect for core freedoms help promote prosperity and accountable government. Free people almost universally enjoy good health, good nutrition, and prosperity. People with the bad luck of living in places governed by small-coalition autocrats rarely enjoy any of these social and economic goods. International law helps when it emphasizes the personal integrity of individuals and promotes individual civil liberties and political rights rather than thinking of states as undifferentiated, unitary actors. We should encourage those who forge international human rights treaties to emphasize individuals over the state.

KEY TERMS

economic rights

force of law

freedom rights

luxury goods

political rights

resource curse

revealed preferences

rule of law

Answers:

1. International law's respect for sovereignty, and especially the sanctity of national borders, can be used to contradict international law's stipulation of how citizens anywhere should be treated. There is an inherent clash between the competing elements of international law that deal with rights and those that deal with sovereignty.
2. The tension between sovereignty and human rights law or law against genocide can be deeply problematic. Without the force of law behind

sovereign rights, states might well be in constant conflict. But sovereignty can also be exploited by governments that violate fundamental principles of decency in their relations with indigenous ethnic, religious, or other types of groups merely seeking to lead their lives in accordance with their beliefs and values.

3. b. The evidence seems to support this conclusion in namely that there are selection effects in who chooses to sign on to human rights treaties and in decisions to enforce them or ignore them. There is scant evidence that ratification of human rights treaties itself significantly alter governmental behavior.
4. b. Human rights are not costly to enforce. Indeed, most are cheap or free. Poverty is often used, however, as an excuse to violate human rights.
5. Human rights promote wealth rather than wealth promoting human rights. Some very wealthy societies, such as many oil-rich states, do not respect human rights as understood by international law.

¹ I count Belgium as a liberal democracy in 2009 although its score on the coalition size index is 0.75, equal to Singapore's and, of course much larger than the UAE's score of 0.25. The Polity Democracy-Autocracy score for Belgium is 8 out of 10 while Singapore's Polity score is -2, with values below 0 indicating a regime that is more autocratic than democratic.

10

Free Trade or Fair

The Domestic Politics of Tariffs



Many world leaders believe that free trade ultimately will prove beneficial to international commerce and national economies; others fail to see its upside. Here, a group of farmers cross a tollbooth in the town of Tepoztlan on the outskirts of Mexico City on January 30, 2008. Several farmers groups gathered in Mexico City to protest the lifting of import tariffs on corn and beans as agreed by the North American Free Trade Agreement (NAFTA) timetable.

OVERVIEW

- Governments regulate trade in part to protect select constituencies. The larger the coalition on which a government relies, the less likely it is to promote trade protection.
- Free trade promotes efficient and equitable outcomes by

encouraging the pursuit of each country's economic comparative advantage.

- Every country has a comparative advantage in some aspect of production, so trade is beneficial between two countries even when one of them can produce any product more cheaply than can the other.
- As consumers, all people benefit from the increased competition and lower prices produced by free trade, but as workers or owners of businesses, some people may benefit more than others from free trade and some may be harmed.
- Tariffs protect domestic businesses and labor against competition. As such, tariffs tend to increase the costs of goods and services to consumers while decreasing their supply.
- Because higher prices tie up money that could otherwise have been spent on other goods and services, tariffs tend to harm economic growth by reducing demand for products in unprotected industries.

Two of the foundational ideas behind the purpose—if not always the practice—of national government is that it should protect citizens against foreign (and domestic) threats and it should improve citizen welfare. We addressed the first purpose in [chapters 5 and 6](#) when we examined war and national security issues. The second bedrock function ties directly to the issues addressed in this chapter and the next: What is the role of government in regulating and facilitating international trade, and how does trade influence domestic and global prosperity? Clearly there are tensions between the policies that are good for all of one's own citizens; a subset of one's own citizens who are part of the winning coalition; and the general well-being of people in other countries who, therefore, have no prospect of being in the domestic winning coalition. These tensions between the economics and the politics of trade are resolved differently depending on domestic political institutions and domestic economic circumstances. Here we will try to understand more of the economics of trade and how the economically optimal approaches to trade relate to the politically optimal trade policies within a nation. In the next chapter, we will ask essentially the

same questions but then from the perspective of global well-being, looking across nations rather than within them.

Broadly speaking, there are two views of government's role in trade: (1) to protect and foster the success of domestic firms against foreign competition or (2) to step aside, allowing free trade to foster competition to reduce the costs of goods and services to consumers. The economics behind growth-oriented and employment-oriented trade policies is well established. Except under special, unusual circumstances, economists agree that free trade is better for an economy and especially better for consumers (and we all are consumers) than protectionism. Yet politicians and the "special interest groups" on whom they often depend for reelection regularly argue for protectionist policies on behalf of the people they represent.

Assumptions Check

1. Protecting a domestic business and its workers against foreign competition usually _____.
 - a. saves jobs on balance
 - b. costs jobs
 2. If country A can make any product more cheaply than country B, that means _____.
 - a. no cost-conscious buyer will purchase any of the products from country B
 - b. despite its price advantage in both products, country A will concentrate on one of the products and, in a two-state world, country B will concentrate on the other
 - c. buyers don't care about price; they care about where a product is made and so people in A will only buy A's products and people in B will only buy B's products even though they are more expensive than imports from A
 3. Does it generally make sense for people to pursue self-sufficiency or specialize in what they can make most efficiently?
 4. Does protecting domestic businesses and labor help to promote income equality or income inequality?
-

See end of chapter for answers.

Phrases like “special interest groups” conger up negative images of cigar-smoking lobbyists passing around cash-filled envelopes to buy the support of unethical politicians. That, however, is a Hollywood image and not reality or, at least, not the reality that most of us want to face. Who are the “special interests”? Sure, they are big corporations like General Motors or ExxonMobil or Facebook, each with its own ax to grind. Probably you don’t think of companies you like, such as Facebook, in the same boat as an automobile manufacturer or an oil company. Still, they have a strong interest in preventing a highly regulated Internet. They want the freedom to sell information about you to whomever they want, thereby generating big profits for themselves and maybe others. Who else are the “special interests”? How about union workers, professional guilds (e.g., the American Medical Association [AMA], the American Bar Association), environmental groups like the Sierra Club or the World Wildlife Fund, and so on. Each and every one of these wants to see their interests advanced and their adversaries thwarted. None of these special interests put their arguments in terms of their own narrow self-interest. Rather they argue for policies to ensure quality goods and services over quantity (hence the AMA’s control over the supply of doctors), or they argue for protection against “unfair foreign competition” (as the American automobile industry has done) or against shipping jobs overseas that could just as well (though more expensively) be performed at home (as is argued for by labor unions). They argue to clean up the environment although the cost may come in the form of more expensive food, shelter and transportation which poorer people can ill afford. Whatever special interests argue for they argue on behalf of their supporters even as they declare that their views are right for everyone. Their views may be “right,” but certainly they are not right for everyone.

Since all of us not only are consumers—with an interest in high quality, inexpensive goods and services such as are the product of free trade—but we also all are advocates for some special interest group or other (most particularly, our own interests), we all are vulnerable to having a political bent in favor of protectionism in those areas that help us. We might even be inclined to support someone else’s call for protection against competition if they will support our interests as well. This tension between the desire for

quality, cheap goods and services and the desire for better pay and better work opportunities at home translates into the tension between the economics of trade and the politics of trade policy.

GOVERNMENT'S MINIMALIST ROLE IN TRADE

As we turn to the issues surrounding trade, whether in goods, services, or currency (which is taken up in [chapter 11](#)), it is important that we sort out the economic side of the equation from the political. International trade does, after all, involve both economic and political considerations. Trade occurs between businesses or between individuals and businesses or just between individuals. Typically, governments do not themselves engage directly in much international trade other than trade in currencies. The role of governments in the international economy involves taxing and regulating cross-border exchanges and guaranteeing contract enforcement through the legal system. In addition, governments monitor compliance with international rules, such as those accepted by the signatories to international organizations like the World Trade Organization (WTO); the European Union; the North American Free Trade Agreement (NAFTA); and Latin America's Mercosur, a common market agreement among Argentina, Brazil, Paraguay, and Uruguay. When violations are detected, governments may punish the violators. Furthermore, governments provide the essential infrastructure that supports trade such as ports of entry, customs agents, and the body of enforcement law.

There surely would be much less exchange of goods and services across borders if governments did not provide for reasonably secure and stable currencies and for well-established means to protect the transfer of payments. One common failing of many autocracies, for instance, is that their leaders gain political advantage by manipulating the value of their country's currency. Because autocrats do not provide secure and stable value for their country's money, they are limited in their attractiveness as trading partners and in their ability to entice investors. This is one of several reasons that people who live in such small-coalition autocratic regimes are, by and large, poor. Such seemingly mundane government functions as maintaining a credible currency and [currency convertibility](#), and facilitating currency exchange and the repatriation of capital for domestic firms with operations overseas while providing an efficient check-clearing mechanism are essential

for trade. We cannot understand trade and trade policies without understanding the foundations of economic exchange and the interplay between government and economics.

Governments do not limit their involvement in trade just to the minimalist considerations listed previously, including questions of exchange, contract enforcement, and compliance with international trade agreements. Nor are domestic political gains and losses from trade the sole political consideration shaping trade policy. Government foreign policies routinely also utilize trade as a coercive instrument to promote policy goals that have nothing to do with trade. Consider how they use punishment strategies such as trade sanctions to enforce particular norms or preferences about national and international policies that may be unrelated to trade. The US government, for example, has for nearly fifty years severely restricted the opportunity of American citizens and businesses to trade with Cuba in an effort to punish the Cuban government for policies that many political leaders and well-organized constituents in the United States dislike. This is especially true in Florida, an electoral swing state, where many expatriate families that fled Cuba's Castro regime now reside. But sanctions policies are not limited to satisfying a concentrated swing bloc of domestic voters.

The United States and the Europeans, with backing by the United Nations, imposed severe economic sanctions on Iran, cutting their own oil and fertilizer imports (the mainstays of Iran's economy) from Iran and cutting Iran out of the global check clearing system and so out of international banking. This has been done in the hope that the sanctions will cost Iran's leaders enough politically to convince the Iranian government to stop enriching uranium. Here we see trade policy used to advance ostensible national security goals by diminishing the risk that Iran becomes a nuclear-weapons power that might use its nuclear leverage to increase its influence throughout the Middle East. The international community has also applied trade sanctions for security ends—with varying degrees of effectiveness—to Iraq, North Korea, and many other countries from time to time, each designed to coerce a rival regime to alter its policies to be more aligned with those desired by the sanctioning government.

As we see now, it is difficult to use these punishment strategies effectively to alter policies that are disliked by many in the international community. China's government, for instance, has not cooperated thus far on banning oil imports from Iran. Neither has India's government. Rather, they

see the sanctions regime promoted by the United States and the Europeans as an opportunity to gain favorable terms of trade with Iran and they have done so. This is one of the central arenas in which constructivist reasoning fails to account adequately for the persistence of policies adopted by some governments in contradiction to international norms. And it is one of the ways local political considerations distort the “national interest” to advance the interest of core constituents, whether the sanctioning government depends on many or few to sustain itself in power.

As we go through the political economy behind trade policies, I clarify who the winners and losers are with free trade and with so-called **fair trade**—that is, protectionism. To do this, I first offer a brief historical account of international trade, followed by a primer on some critical insights from economics. Then we can turn to evaluating trade policies and their ties to domestic politics.

TRADE IN HISTORICAL PERSPECTIVE

Trade certainly is not a new phenomenon. Trading ships from 7,000 years ago have been uncovered by archeologists in the area that is now Kuwait. India’s Indus civilization was trading with the Mesopotamians across vast ocean expanses more than 3,000 years ago, as were the Phoenicians and other ancient civilizations bordering the Mediterranean Sea. Evidence of ancient trade routes has been found in virtually every corner of the earth, reminding us that the motivation to trade is nothing new.

What, then, are the motivations to trade? The short and easy answer is to make money and get products. Understanding how money can be earned more successfully through trade rather than, say, working at home is of course fundamental to understanding the economics and the politics of trade. A good place to start is with the idea of **arbitrage**. If an individual could get goods cheaply in one place (say gold from the Americas in the sixteenth century) and simultaneously sell them for more in another place—the process called arbitrage—then there was a great economic incentive to export goods from the cheaper place and **import** them into the place where they would sell for more. There also was a strong political incentive to keep pertinent information about this opportunity out of the hands of competitors. Indeed, during the “age of exploration” trade routes were as big national secrets as nuclear weapons technology is today or at least was in the mid-twentieth

century.

The urge to control trade for centuries encouraged a trading system known as **mercantilism**, a system in which trading relationships were structured to be monopolies. Through mercantilist control, for instance, eighteenth-century American colonies could only export their products to British firms and Americans could only purchase imported goods from the British, giving Britain a monopoly on American trade. Mercantilism sought to prevent competition that could lead to the loss of arbitrage opportunities. In the process of doing so, it also was a system that inherently encouraged colonialism as a means to use the state's coercive power to ensure control over its markets. By the nineteenth century, Britain and later France and others began to move away from a mercantilist approach and toward a freer trade approach. In free trade, anyone was *free* to buy or sell to anyone else, seeking out the highest price as an exporter and the lowest price as an importer. Under such a system of free trade, the market determined prices, the flow of goods, and who would be winners or losers. In theory, government played no part in picking winners and losers or in setting prices. All was dictated by competition over supply and for demand. But the shift to free trade in the nineteenth century hit a roadblock in the early twentieth century: World War I.

The onset of World War I led to a great expansion in protectionism. Although there certainly were many tariffs and other restrictions on free trade in the nineteenth century and before, the degree of protectionism in trade expanded mightily during the years between the two world wars. Indeed, one of the factors that exacerbated the Great Depression (which began in 1929 and did not end until the onset of World War II) was the decision by the US Congress to pass the Smoot-Hawley Tariff Act in 1930. This legislation imposed the highest level of tariff protection on behalf of American industry in the history of the United States. Import duties (i.e., taxes on imports) increased from 39 percent to 53 percent. The bill was intended to insulate American farmers and manufacturers from stiff foreign competition. The idea was to improve the lot of American workers and business owners who were suffering from the onset of the Depression.

The politicians who voted for Smoot-Hawley surely hoped their constituents in working-class areas would return them to Congress. The political incentive for protectionist trade policies was strong—much as we saw a push against outsourcing services during the 2008 and 2012

presidential election cycles. During periods of high unemployment, it is common to argue for keeping jobs at home. What politician in the United States would prefer to improve employment for India's workforce at the expense of the American workers who can elect or unelect them? Surely just about none! But as strong as the political logic for protectionism, the logic is also strong for the strategic, political reaction by the targets of protectionist trade policies who will seek to offset the harm they suffer at the hands of protectionist legislators in countries to which they export goods.

In response to American protectionism following passage of the Smoot-Hawley Tariff Act, other countries passed retaliatory tariffs. Just as American politicians sought to protect their constituents from foreign competition, so too did foreign leaders try to protect their own constituents from American competition and punish American politicians for what were perceived as unfair trade practices. Congress, it seems, either did not think through the expected strategic response to their action, thinking that what they did at home would not influence what others outside the United States did, or they cynically accepted the risk and cost of retaliation as the price to pay for the expected short-term political gains. Rather than easing the economic pressures from competition, the cycle of protective tariffs severely deepened and extended the Depression, pushing unemployment to record heights and leading to large turnover in the 1930 midterm congressional election. By 1932, thirteen million American workers (out of a total population of about 123 million) were unemployed, up from 3 million in January 1930, six months before the passage of the Smoot-Hawley bill. American unemployment eventually rose to 30 percent of the workforce. At the same time, trade plummeted, falling about two-thirds between 1929 and 1933. Let's hope that today's politicians, facing the understandable frustration of their constituents during a long and deep economic downturn, do not make the mistakes of their Smoot-Hawley predecessors. Doing so will just prolong economic suffering on Main Street, as we will see.

Attitudes toward protectionism underwent a sea change after the end of World War II. The US government gradually emerged as a proponent of free trade. To be sure, the United States tried, and still tries, to protect many of its industries, but the depth and breadth of tariff protection began to diminish. By the late 1970s and early 1980s, the degree of global freedom from tariffs had reached very high levels. The free trade regime, held back from 1914 to 1945, was moving forward again. In 1950, about 7 percent of world

production was exported; today a bit under 25 percent of world production is exported. Of course, not all products or services move across national boundaries as freely as others. Immigration, which is essentially trade in labor, is considerably more restricted in the United States today, for example, than it was in 1900. That, as we will see in [chapter 11](#), has important implications for who wins and who loses globally from trade policies.

With this brief background into the history of trading systems, from mercantilist to free trade to protectionist and back to free trade, we are ready to explore the ways in which free trade or trade protectionism prove beneficial or harmful. Our starting place is some basic economics that are necessary to inform our assessment of the political economy of trade.

AN ECONOMICS PRIMER

Free trade depends on market-driven exchanges. By *market-driven*, I mean exchanges that are determined by supply and demand for goods, services, and capital (loosely, money) unconstrained by government regulation, with the exception of credible government commitments to the rule of law, property rights, currency guarantees, and the adjudication and enforcement of voluntary contracts between buyers and sellers. I add these caveats regarding *property rights*, *rule of law*, *currency guarantees*, and *enforcement of contracts* because without performing these fundamental political and legal functions government fails to ensure that competition is fair in the marketplace. These conditions are, in essence, the domestic analog of national security; without them, society would be run by bullies. They are among the domestic guarantors of life, liberty, and the pursuit of happiness (or, as John Locke put it, the pursuit of property).

Comparative Advantage

A good place to begin our economics primer is with a discussion of comparative advantage. This concept, first rigorously demonstrated by the English economist David Ricardo in the early nineteenth century, is fundamental to understanding trade and to understanding why a country (or a company or a worker) gains from the opportunity to trade even if someone or someplace else is better at making what they are selling. To understand comparative advantage, it is necessary to see how it differs from [absolute](#)

advantage. By grasping this distinction, we can gain critical insights into the fundamentals behind how and why competition works to produce economic efficiency, more goods in the marketplace, more trade, and more prosperity. We can also understand why, even if a country is not better than any other at anything, it still stands to benefit more from free trade than from trade protectionism.

Imagine two countries competing over airplane manufacturing. The United States produces airplanes and so does India. Planes made in the United States are more successfully sold outside the United States than are airplanes made by Hindustan Aeronautics, although they have a pretty good market in Asia. The United States and India also both produce computer software. While US airplane manufacturers like Boeing or MacDonald-Douglas do better than Hindustan Aeronautics, India is the world's leading software producer. Because of price and quality advantages, it makes sense for people in America to buy computer software designed in India and for people in India to buy airplanes from the United States. In fact, India buys many airplanes from the American firm Boeing, and India is a large exporter of software programs to the American market. These countries could have an absolute advantage in what they produce; that is, they may produce these goods and services for a price that is lower than any other country can. Trading one country's cheaper good for the other country's cheaper good leads to gains from trade for both the United States and India. Yet neither the United States nor India nor other countries necessarily choose to focus their efforts on making all the things in which they have an absolute advantage. They don't have to be the best at making something to have a market for their goods and services. What is more, not every country (or every individual) has an absolute advantage; that is, not every country (or individual) is the best at doing or making something. Absolute advantage is nice to have, but it is insufficient for us to grasp what different countries produce, buy, and sell. It is neither necessary to have absolute advantage in what one makes nor is absolute advantage sufficient to decide to make something.

Let me offer a prosaic, personal example. Then I will turn to a more careful statement of the idea. It just so happens that I type very fast, about seventy words per minute (with just two fingers, I might add). Some professional typists do not type as quickly and accurately as I do, yet I do not choose to compete for their jobs. I do not specialize in typing because, even if I have an absolute advantage in typing skills, it is not my comparative

advantage; it is not the activity that maximizes my income or other aspects of my well-being, and so I do not specialize in it. This is the kernel of comparative advantage. Resources are put to use in the way that maximizes their return. People specialize in what they are *comparatively* better at even if others are absolutely better than they are at the particular skill. I may be a better typist than many typists, but still they specialize in typing and I do not.

Ricardo provided a clear and useful example of comparative advantage in his book *On the Principles of Political Economy and Taxation*, published in 1817 (2004). I use his basic example here because it remains pertinent (and entertaining) today. Let us turn back the clock and examine the eighteenth-century economies of England and Portugal. Suppose they each can produce two goods: (1) cloth and (2) wine. Furthermore, imagine that the only input (i.e., the only resource) needed for production is labor (ignoring for now raw materials like cotton or wool or grapes, and also ignoring capital needed to buy machinery with which to process the raw materials, and so forth). Ignoring these other **factors of production** is equivalent here to saying that neither has an advantage in growing grapes or sheep or cotton plants and so on. Let us further assume that how much output each worker produces per unit time (i.e., the **productivity** of labor) varies both from industry to industry (cloth vs. wine) and between England and Portugal. To make a sharp distinction between absolute advantage and comparative advantage, let us also assume—as Ricardo does—that Portugal has an absolute advantage over England in the production of both cloth and wine as indeed they may have had. Surely Portugal has a better climate for growing wine grapes than England and it has abundant grazing land for raising sheep in competition with England’s sheep as a source of wool. [Table 10.1](#) provides a numerical example of the assumptions that I use throughout this discussion.

TABLE 10.1 Labor Productivity in Making Wine and Cloth

Country	Available Labor-Hours	Hours Needed to Make One Unit of Wine	Hours Needed to Make One Unit of Cloth
Portugal	12	1	2
England	12	6	3

It is clear from [table 10.1](#) that Portugal’s labor productivity in making both wine and cloth is higher than England’s. Fewer hours of labor are needed in Portugal to produce a unit of cloth (say, a yard of cloth) or a unit of

wine (say, a bottle of wine) than in England. This is how we know that Portugal has an absolute advantage in the production of both goods (at least in a world with only Portugal and England in it). Can we still trade cloth from England for wine from Portugal (or cloth from Portugal for wine from England—ugh!) even if Portugal is better than England at making both cloth and wine? How can England gain from trade in this circumstance? What will the Portuguese buy from England when they both can produce the same two products and Portugal produces both products more efficiently and, in this example, there are no other products? Ricardo's analysis of comparative advantage nicely shows us that trade will take place and that it makes sense for England to specialize in the production of one of the goods (cloth) and for Portugal to specialize in the production of the other (wine). Furthermore, he shows that total world output of both goods could rise through such **specialization**. Indeed, he shows that with free trade and with the right terms of trade—that is, the amount of one good traded for the other—both England and Portugal could end up with more of each good through specialization than they would have in the absence of trade.

How should England and Portugal go about determining which good to specialize in? A reasonable starting place for answering that question is to zoom in on how the labor force in each country can get its largest return for its hard work. Clearly neither Portuguese nor English labor will do best by randomly selecting what to produce. Rather, each should specialize in the good in which the country enjoys a comparative advantage in production. That way, workers will be better off because they will produce more revenue in which they will share, having produced more goods per unit of labor effort. To figure out which good each country has a comparative advantage in, we must compare the **opportunity cost** each pays in producing cloth and in producing wine. The opportunity cost evaluates how much of the other good is given up when a country chooses to focus its resources on the good being produced.

Opportunity cost is a very important concept and one that is too often overlooked in studying international relations. Consider an importer who travels to Japan to buy television sets to sell in the United States where they will command a high enough price so that they will be sold at a nice profit even after paying the costs of shipping and handling. These costs are the transaction costs associated with this television import business. But these transaction costs are not the only costs. The importer also has to spend time

traveling to and from Japan. That is worth doing if spending that time doing something else would not yield a better return to the importer's time. The time spent going to Japan entails not only the transaction cost of getting there, such as the cost of an airplane ticket, but also time the importer could have been doing something else. The latter—the benefit from however else the importer might have spent his time—is his opportunity cost in traveling to Japan to buy television sets.

TRY THIS

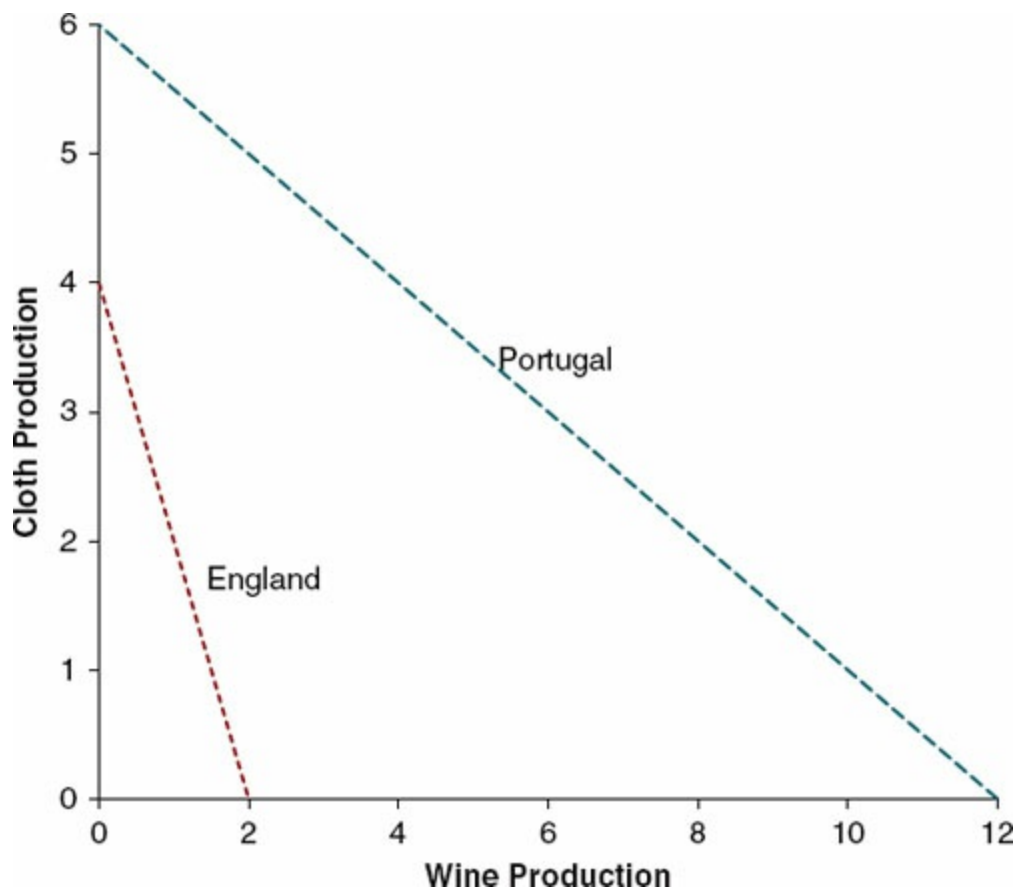
What is Iran's opportunity cost in pursuing the development of its nuclear capabilities—whether their intention is to build a civilian nuclear energy capability or a nuclear weapon? What is the US opportunity cost in sanctioning Iranian trade in oil or in currency movements? How might you estimate opportunity costs?

Opportunity costs are central to understanding comparative advantage. Why am I not a professional typist even though my typing skills would make me very competitive for a typist's job? Well, the time I would spend being a typist is time I could not spend being a political science professor. I would forgo—perhaps to your advantage—the opportunity to teach courses such as this book is designed for. For me, that is a high opportunity cost. Every minute spent as a typist typing someone else's text deprives me of the opportunity to write my own and to teach my ideas to others. In fact, the opportunity cost is so high that it trumps the possibility that I am a better typist than I am a professor of political science in my career choice.

The information in [table 10.1](#) is used in [figure 10.1](#) to discover in which good each country has a comparative advantage by looking at opportunity costs. [Figure 10.1](#) plots what is called the **production possibility frontier**—that is, the maximum amount of goods that England or Portugal can produce given the available resources (labor in this case) and the cost of production. The cost of production in this case is the amount of labor needed to make a unit of cloth or a unit of wine. To calculate the production possibility frontier, we solve for how much cloth each country must give up making to make only wine and how much wine must be given up to make only cloth. With twelve hours of labor available to it, Portugal can make twelve bottles of wine (at

one per hour as noted in [table 10.1](#)) if it makes no cloth. If it makes one unit of cloth, however, then it gives up two of its twelve hours that could have been used to make wine. As a result it only has ten hours remaining and needs ten hours to make ten bottles, so to make one unit of cloth Portugal gives up two bottles of wine. To make six units of cloth, Portugal needs twelve hours and so can make no wine, anchoring the other end of its production possibility frontier. Looking at the English case, we see that England needs six hours of labor to make a bottle of wine and three to make a unit of cloth. So, if England spends all of its labor time (twelve hours) making wine, it can only produce two bottles. If it spends all of its labor time making cloth, it can only make four units. So, for England, the opportunity cost of a single bottle of wine (which requires six labor hours) turns out to be foregoing the production of two units of cloth.

FIGURE 10.1 The Production Possibility Frontiers: Portugal and England



Of course, given the trade-off between labor and production, Portugal can choose to produce any mix of wine and cloth that falls on or below the line graphing its production possibility frontier (the quantity of wine if no cloth is produced, the quantity of cloth if no wine is produced). The production possibility frontier, after all, specifies the maximum mix of production if all available labor is used (that is, there is full employment). For England, the comparable values, as we saw, are four units of cloth when there is no wine produced and two units of wine when there is no cloth produced.

Several factors are noteworthy in [figure 10.1](#). If England produces only cloth and Portugal produces only wine, then the market will have twelve units of wine and four units of cloth, equaling sixteen units of goods. If, instead, England specializes in wine production and Portugal specializes in cloth production, then there will be only two units of wine and six units of cloth in the marketplace, for a total of only eight units of goods. This latter outcome would be better for cloth consumers—more product in general means lower prices—but it will not be in the interest of Portugal's workers to specialize in cloth by sacrificing their opportunity in the wine trade. Because they can make so much more wine than cloth, they have a greater opportunity to consume what they need at home and export the rest overseas when it comes to wine than when it comes to cloth. Thus, although cloth buyers will have more choice if Portugal specializes in cloth production, the total number of goods—cloth and wine—in the marketplace will drop, and that will make the average consumer worse off because the average consumer will want to buy a mix of goods, not just one type of good.

Suppose England and Portugal both decide to try to be self-sufficient; that is, they each produce both cloth and wine. Then, if each country applies equal labor to each product, the market will have seven units of wine (six Portuguese and one English) and five units of cloth (three Portuguese and two English) for a total of twelve units of goods. For the market, this is a gain of one unit of cloth over what will be available if Portugal produces only wine and England only cloth. But to gain that one unit of cloth, the market (i.e., consumers) pay a big price—they lose the production of five units of wine which, as we will see, will generally make wine more expensive. The total quantity of products made (sixteen; i.e., twelve units of wine and four units of cloth) is greatest when England specializes in cloth production and Portugal specializes in wine production. Pursuit of self-sufficiency runs a dangerous risk of creating shortages that could be made up if only self-

sufficiency were replaced with specialization and trade. That's the best circumstance for consumers—they have the most goods available, which, as we will see, decreases prices—and it is also best for producers who are workers in this example. The laborers specialize in what they are relatively better at, keeping their opportunity costs low and maximizing the quantity of goods they can produce.

We can see the opportunity costs from alternative production decisions by examining the slopes of the production possibility frontiers. Although Portugal has an absolute advantage in both goods, as seen by the fact that its production possibility frontier is always higher than England's (we assume equal labor pools), its slope is flatter, and England's is steeper, as we move from fewer units of wine production to more units of wine production. This tells us that Portugal has a comparative advantage in wine production and England has one in cloth production. For instance, we can see that, for England, giving up each additional unit of wine production to make cloth leads to more cloth (at a ratio of two units of cloth for every one unit of wine given up), hence the steeper slope of the line. Looking at the Portuguese production possibility frontier, we see that giving up cloth to make wine is most efficient for Portugal but that the relative gain is greater for England (that is why the slope is steeper) than it is for Portugal even though Portugal has an absolute advantage in the production of wine and cloth. By each country's specializing in the product in which it has a comparative advantage, labor is used most productively to yield the greatest quantity of goods in the global market.

As we have seen, England must calculate how much wine production it must give up to make cloth and how much cloth manufacture it must give up to make wine, the very calculation facilitated by [figure 10.1](#). The trade-off between wine and cloth production is the relevant opportunity costs. Portugal must, of course, make the same calculation. England has a comparative advantage in cloth production relative to Portugal provided that the amount of wine production it must give up to make one more unit of cloth is smaller than the amount of wine production that Portugal has to give up to make an additional unit of cloth. We can see that this is true in [figure 10.1](#). Draw a line at a right angle to the horizontal axis at one unit of wine production so that it just touches the production possibility frontier for England. Draw another line at a right angle to the vertical axis so that it just touches the English production possibility frontier at the same point as the perpendicular line

from the horizontal axis. Notice that producing one unit of wine in England is equivalent in labor to producing two units of cloth. If England does not produce that 1 unit of wine, then, as its production possibility frontier shows us, it will produce four units of cloth (i.e., when wine production = zero, cloth production in England = four; when wine production = one, cloth production = two). Repeat this process for Portugal and you will see that to go from five units of cloth to six, a gain of one as in the English example, Portugal would have to give up two units of wine. Thus, England has comparative advantage on cloth production even though Portugal makes both wine and cloth more cheaply than does England in terms of the cost of labor (and capital).

TRY THIS

Construct an example in which both cloth production and wine production are greater with specialization than without it. Draw the production possibility frontiers for the example you chose. Imagine that a poor country has a comparative advantage in labor and a rich country has an absolute advantage both in labor (that is, labor has a higher productivity than in the poor country) and in capital. Does it still make sense for the rich country to import labor-intensive goods from the poor country and for the poor country to import capital-intensive goods from the rich country? Can you find examples of such exchanges between the United States and Mexico or between other relatively rich and relatively poor countries?

Each country has a comparative advantage in the production of some good or goods (or services). By pursuing its comparative advantage, each country benefits through specialization and trade. Portugal, in our example, has a comparative advantage in wine production. By specializing in wine production, it frees up resources that would have been used by it *relatively inefficiently* in making cloth. And because England has the comparative advantage in making cloth, it avoids the opportunity cost of spending resources on wine production that could be better used by it to make cloth. Both Portugal and England, then, focus their resources on the use that yields the greatest productivity—the most efficient use—thereby pursuing their comparative advantage. This is just the same as my decision to be a professor

rather than a typist.

Sometimes a country (or an individual manufacturer) has both an absolute advantage and a comparative advantage in producing one good over another (as with Portugal and wine production). There is no problem or contradiction in saying that a country's absolute advantage can turn out also to be its comparative advantage, but it is not necessary for the two advantages to be the same. Some people apparently believe that to benefit from trade a country has to be the best at making something. Those who hold this view believe that an exporter cannot be competitive unless it is better than any other prospective exporter in the production of its product or service. Those who hold this belief are confusing absolute advantage with comparative advantage. Comparative advantage teaches a fundamental lesson about trade. It makes clear that gains from trade—the win-win from trade—follow from specialization. It is not necessary to be best at anything to gain from trade.

Supply and Demand

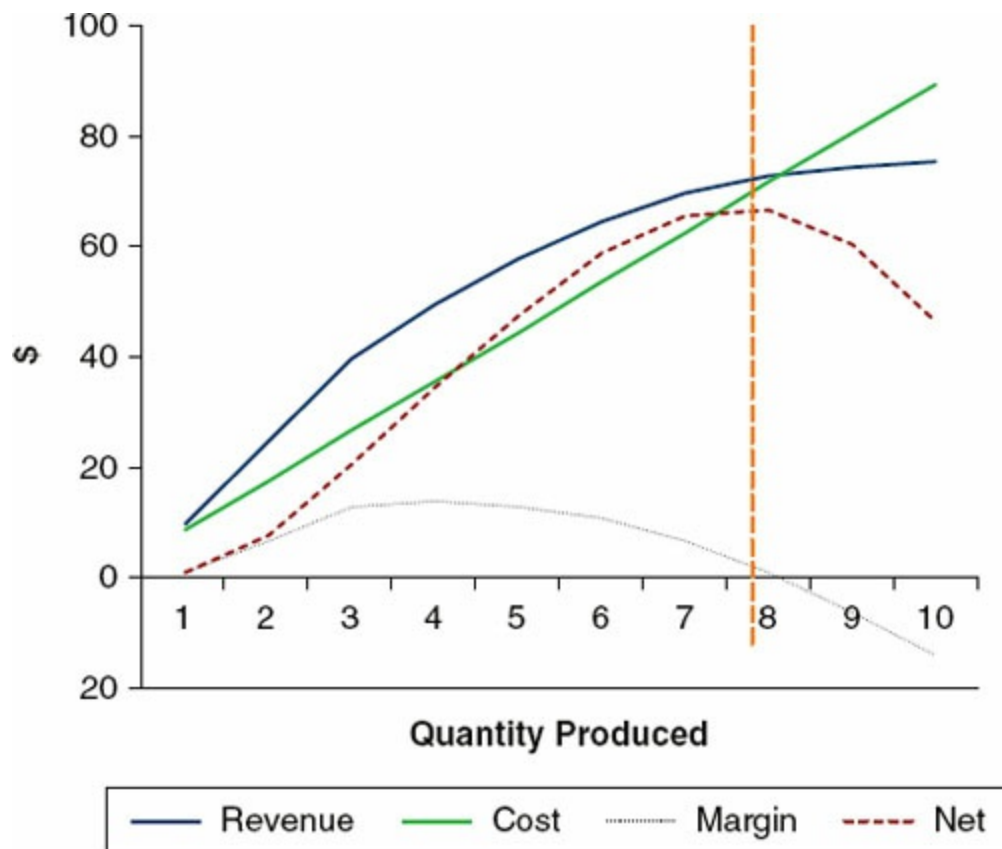
Comparative advantage helps us figure out what goods or services to specialize in. It does not, however, tell us how much to produce or how to price what we make. We begin to get insight into these questions by examining supply and demand. Supply and demand together establish the **equilibrium price** for goods, services, or capital in a market. By assumption, producers seek to maximize their total profit. Profit is simply the difference between the total costs of production and the price garnered for the goods (or services) produced. Producers produce until the additional revenue (price per unit times quantity of units produced) from the n th unit just equals the cost of production for that unit; that is, until the marginal cost equals the marginal gain.¹

Imagine that we are producing widgets. [Figure 10.2](#) illustrates the idea of marginal gains and marginal costs, assuming that the **law of diminishing returns** is working well. That means that for a fixed investment, producing more widgets increases revenue (up to a point) but at a decreasing rate. At the same time, [figure 10.2](#) assumes that the cost of making a widget is constant. This makes the central point easy to see. The revenue line in [figure 10.2](#) shows us the revenue earned as more and more widgets are produced. The line continues to rise but at a slowing rate, reflecting diminishing marginal returns and diminishing revenue for each extra widget. The cost line shows

the cost to produce different quantities of widgets. It is a straight line indicating that the cost of producing two widgets instead of one increases at the same rate as the cost of producing say ten widgets instead of nine. The margin line simply subtracts costs from benefits, so it shows the marginal profit (or loss) for each extra widget that is made. This line is curved, rising for a while and then dropping. Eventually it becomes negative. In this example, that happens if more than eight widgets are produced. After eight, the revenue from the next widget, given diminishing returns, is smaller than the cost of making that widget and so it isn't worth the producer's while to make any more widgets. Finally, the net curve calculates the cumulative profit—that is, the sum of the marginal gain (or loss) of each extra widget. It is, for those of you who prefer to think in terms of calculus, the area under the marginal gain (loss) curve.

There are several important features to notice about [figure 10.2](#). I have drawn a dotted vertical line at the point on the horizontal axis that shows eight widgets being produced. The dotted line intersects the exact point at which the cost curve crosses the revenue curve, meaning that we have reached the point where the total cost of making widgets equals the total revenue earned by making that quantity of widgets. This is precisely also the quantity of widgets at which the marginal gain from making an extra widget equals zero. Any widgets made beyond eight are money losers. And finally this very same number of widgets is where the vertical dotted line passes through the highest point of the net profit curve. Making more widgets reduces total profit rather than increasing it. [Figure 10.2](#), then, gives us an easy way to think about planning widget production and gives us important insight into the difference between maximizing revenue, maximizing production, and maximizing profit. It helps us see that maximizing production is not the same as optimizing production for maximum profit. Thinking through marginal costs and marginal benefits proves extremely important in understanding the incentives behind trade and the costs and benefits of globalization—as we will see.

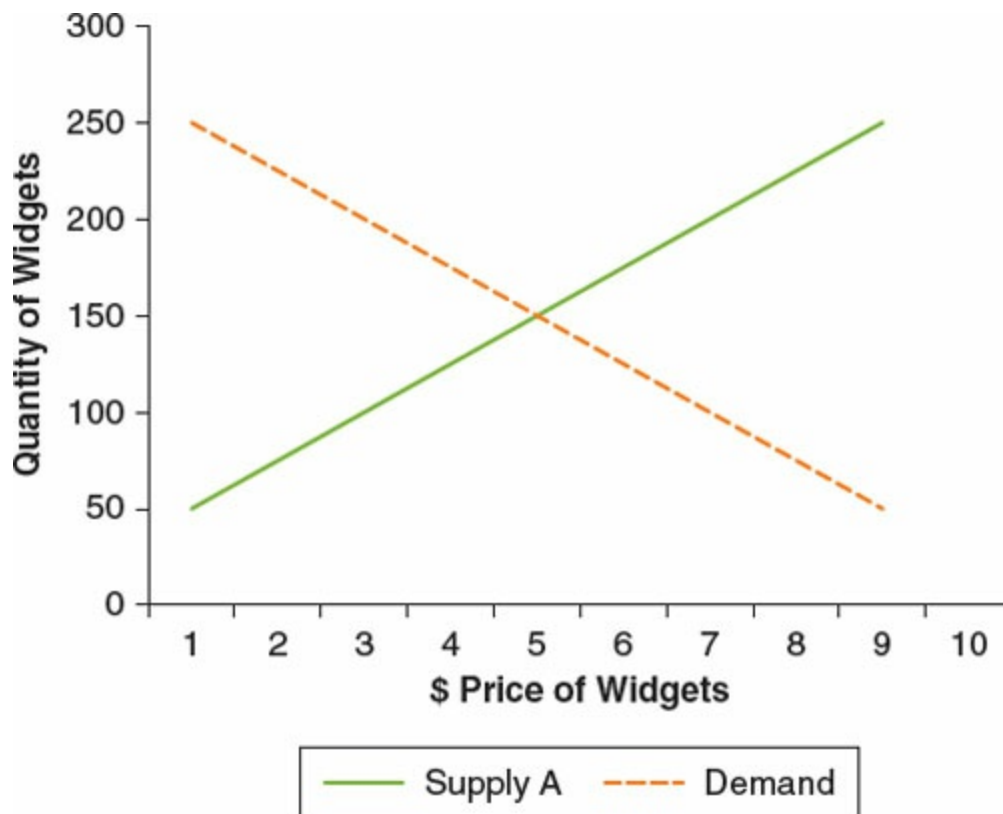
FIGURE 10.2 **Marginal Costs and Gains**



A shortcoming of the analysis behind [figure 10.2](#) is that it tells us a lot about production but only if we make some big assumptions about the diminishing rate of return on production and the marginal cost of production. None of this takes into account that producers do not get to dictate these considerations; they must react to them.

Producers naturally would like to charge the highest price they can for their goods, and they will stop producing, as we saw in [figure 10.2](#), when the marginal cost equals the marginal gain from making one more widget. The problem they face in pricing is that, as the price for goods or services (or capital and so forth) increases, demand for whatever they are making falls. In plain English, we consumers buy less when the price is high than we do when it is low. So producers want as high a price as they can get, but, as the Rolling Stones remind us, “You can’t always get what you want.” This leads to the well-known relationship between supply and demand illustrated in [figure 10.3](#).

FIGURE 10.3 Supply and Demand



In [figure 10.3](#), we see the relationship between the quantity of goods (or services or capital or many other things—let’s keep on calling them widgets) that a producer is prepared to supply and the quantity of widgets that buyers demand (i.e., are willing to purchase) at different prices. The supply curve shows how producers respond (the quantity supplied) to changing prices, provided that the cost of additional production does not exceed the price. The demand curve is, equivalently, the response curve for consumers to changing prices. Each curve is assumed to be independently determined, the price of the good—widgets, in this case—being determined endogenously by the interaction of the two curves, as discussed shortly.

For convenience, let us treat the prices shown in the figure as dollars, although they could be denominated in any currency and any amount of money. As noted, producers will make widgets up to the point at which the marginal cost of producing one more widget equals the marginal gain from that one extra widget—that is, up to the point at which there is no more profit to extract from making another widget. A similar argument can be made for buyers. This naturally implies that more widgets will be made if they can sell for a higher price than if they sell for a lower price, all else (e.g., costs) being

equal.

TRY THIS

We saw the impact that decreasing returns can have on production decisions. It is possible to offset marginal declines in return with economies of scale. For example, a widget factory might limit production of widgets on a widget-making machine to reduce wear and tear on the machine but it might also, with sufficient confidence in future orders, buy more widget machines. Do some research into the relationship and the trade-offs between economies of scale—the efficiency gains associated with making more of something—and the law of diminishing returns.

In [figure 10.3](#), we see that suppliers are willing to sell 200 widgets at a price of \$7.00 per widget. Buyers, however, will purchase only 100 widgets if they sell for \$7.00 each. There is not much point in supplying so many more widgets than the market demands because it is costly to do so. With a surplus supply (that is, the amount of supply in excess of demand) of 100 widgets (200 supplied minus 100 demanded at \$7.00 per widget), widget sellers have a strong incentive to reduce the price in order to sell their inventory of unsold widgets rather than paying to store it and tying up capital. Conversely, if widgets sold for just \$1.00, there would be surplus demand. There would be demand for 250 widgets, but there would be only 50 widgets supplied in the marketplace. The shortage of widgets would lead buyers to compete for the scarce supply, pushing the price up. That is just how eBay, for instance, works: if many bid for an item, the price goes up; if hardly anyone bids, the price stays low. And, of course, as the price goes up, the urge to produce more widgets increases too.

TRY THIS

Could demand be dependent of supply? How does advertising influence demand? Which of the following make automobiles with a base price above \$70,000: BMW, Infiniti, Jaguar, Mercedes-Benz, Nissan Motors?

I am betting that many readers, like me, did not know that Nissan makes a car for more than \$70,000—in fact, more than \$100,000 but then the other manufacturers advertise frequently at this level and Nissan does not. Why might they not want to advertise their GT-R more, presumably creating more demand for it? Or might the mystique of the relatively unknown inflate its price relative to value?

If demand is shaped by supply, does the price in relation to supply and demand become a strategic, game theoretic problem instead of a decision problem involving individual, independent choices?

By observing where the supply and **demand curves** cross one another, we can estimate just how many widgets will be bought and sold and at what price. The equilibrium between supply and demand arises at the point at which the quantity supplied equals the quantity demanded so that there is neither a surplus demand pushing the price up, nor a surplus supply pushing the price down. The equilibrium price is the price for which widgets sell at this intersection of supply and demand. In [figure 10.3](#), supply equals demand for 150 widgets at a price of \$5 per widget. The arrow shows the equilibrium price. Reading across horizontally from the top of the arrow, we see the equilibrium quantity supplied and demanded at that price. Satisfy yourself that the equilibrium price is also a Nash equilibrium; neither suppliers nor buyers have a unilateral incentive to switch their provision or demand of widgets from the equilibrium price.

What happens to the supply and the price of widgets if the government decides to step in and regulate the industry or regulate foreign competition? That is the question at the intersection of the politics of trade and the economics of trade.

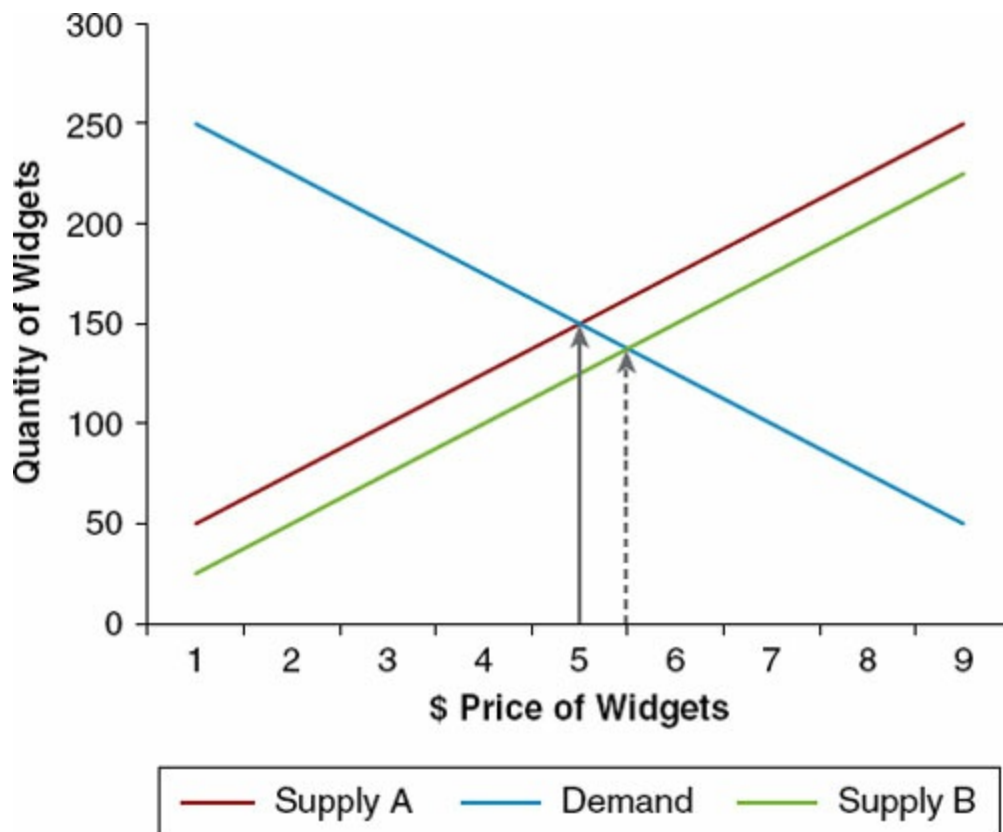
POLITICS OF TRADE: ADDING TARIFFS TO THE MIX

The world of [figure 10.3](#) has no government intervention to alter the price of goods. In such a world, trade presumably is limited only by the cost of getting goods from one place to another. In fact, economists have constructed what is called the **gravity model** of trade. This model seeks to provide a baseline estimate of how much trade is expected between any pair of

countries assuming no government restrictions. It says that trade is inversely related to the distance between the countries and is proportional to the product of their sizes. That is, all else being equal countries that are far apart are less likely to trade with one another than are countries that are geographically close together. For example, Mexico is the third-largest trading partner of the United States, and Canada is the largest. Furthermore, the larger the countries are (in economic size), the greater the trade expected between them. US-Chinese trade reflects this size aspect of the gravity model, with total trade between the United States and China just slightly larger than that between Mexico and the United States in 2010. US-China imports plus exports equaled about \$457 billion, and US-Mexico imports plus exports equaled about \$397 billion.

This simple, apolitical model does pretty well at accounting for trade levels, but much still remains to be explained. In fact, much of what remains depends on domestic political pressure for governments to intervene in international trade. To see how politics can intrude on supply, demand, prices, and trade, let's start by considering what happens if the government imposes a purely domestic tax on the production of widgets. To illustrate the effect of this tax, in [figure 10.4](#) I have relabeled the original supply curve from [figure 10.3](#) Supply A and show a second supply curve, called Supply B that shows the availability of widgets at selling prices given a government tax on production. As we can see in [figure 10.4](#), the supply of widgets decreases when there is a tax on their production. This is evident by comparing the Supply B curve to the Supply A curve. The Supply B curve is shifted down from the untaxed Supply A curve. Recall that producers produce up to the point at which marginal gains and marginal costs are equal. The government's tax increases the costs that the producer pays for making widgets. Because suppliers produce until the marginal cost of the n th unit equals the marginal revenue for that unit, the added cost from the tax is passed on to consumers; this leads to a higher price, which decreases demand. In [figure 10.4](#), we see how the cost of the tax is passed on to consumers. Without the tax (Supply A), 150 widgets cost \$5 each, but with the tax (Supply B), the same quantity of widgets cost \$6 each.

FIGURE 10.4 Supply and Demand with Tax or Tariff



By examining the intersections of the supply lines and the demand curve, we can see the economic consequences of the government's tax. Whereas without the tax, 150 widgets are produced and sold at a price of \$5.00 each (intersection with Supply A; see the dark arrow), with the tax, about 136 widgets are made and sold for about \$5.50 each (intersection with Supply B; see the dotted arrow to find the new equilibrium price). In other words, consumers are worse off. Assuming that producers are initially producing widgets at the efficient market price, then the tax must increase the price to consumers, lowering demand and forcing producers to reduce the equilibrium supply. The result is fewer widgets are available, and they are sold at a higher price than before the tax was imposed. Despite the higher price, we can see in this example that the producer is making no extra money. The higher price per unit covers the tax, and the reduced supply times the higher price just equals the total revenue being generated without the tax. The winners in this circumstance are whoever the beneficiaries are from the government's added tax revenue. We will consider that later.

Suppose we now redefine the two **supply curves** in [figure 10.4](#). Let us say that the two supply curves reflect two different sets of producers, A and B

(instead of the same producer with and without a tax on production). The widgets produced by both sets of producers are the same quality. Producers in group A, represented by Supply A (the solid supply line), can profitably produce more widgets at a given price than can producers in group B, represented by Supply B (the dashed line). That is why curve A is higher than curve B.

Imagine that A represents foreign producers of widgets and B reflects domestic producers. The foreign producers apparently have lower costs of production than do the domestic suppliers B. That is, the foreign producers are more efficient in supplying widgets than are their domestic competitors. Clearly, price-conscious consumers will prefer to buy the less expensive foreign-produced widgets since their quality is identical to the domestic widgets and yet they are cheaper. Up to 150 foreign widgets can be bought for just \$5 each. To buy 150 domestic widgets, consumers will have to pay \$6 each. As we can see in [figure 10.4](#), at \$6 each, there is enough demand for only 125 domestic widgets. At the domestic equilibrium price of \$5.50, only 136 widgets will be sold. As long as foreign widgets are on the market, consumers presumably will buy the cheaper, foreign-made product.

TRY THIS

Find out the cost of making shirts in Sri Lanka or China or India compared to making them in the United States. Does this help explain why so much clothing is made for American companies in foreign countries? Pick three or four other goods or services and see if you can estimate how much offshore production is stimulated mostly by the quantity that can be supplied at a given price and how much by tax advantages derived from producing outside the United States. Would you, as a consumer, be better off if tariffs (taxes on imports) were increased or if US taxes on production were increased or decreased?

Domestic producers are likely to find their situation extremely disturbing. Because of their relative inefficiency, they cannot compete as long as the imported widgets enjoy their price advantage. Domestic widget workers and manufacturers both have incentives to put pressure on the government to exclude foreign widgets from the market, especially if they cannot easily

switch jobs or change their business. Even though the domestic producer does not seem to have a comparative advantage in producing widgets, the workers and owners in that industry understandably want to keep their jobs (and so do the politicians who represent them). The domestic producers and workers have votes or other forms of political support (like campaign contributions) to offer government leaders in exchange for help. The government *can* help by providing the domestic widget industry with an equal chance to sell its widgets by imposing a tax, known as a tariff, on foreign producers. If the tariff charged on all imported widgets is priced just right, then the domestic and foreign producers will be in the same boat. The foreign producers' supply curve (A) will shift down until it sits right on top of the domestic producers' curve (B), depriving foreign manufacturer A of its efficiency advantage. Consumers will pay an average of \$5.50 per widget and will be indifferent between domestic- and foreign-made widgets but unhappy at the unfamiliarly high price. If the tariff is set higher, so that the cost of foreign production plus the tax on importation is greater than the domestic cost of production without a tax, then curve A will shift down further until it is below curve B. Under these conditions, consumers will buy only domestic widgets, presumably driving the foreign producers out of the domestic market while protecting domestic manufacturers/suppliers. Probably the domestic widget industry will lobby for a tariff that high so that it can corner the domestic market and not have to compete with imports.

The consequence of a tariff imposed on foreign widgets is threefold: (1) domestic consumers who buy widgets pay more than they would have paid without the tariff protection; (2) investors and workers employed in the domestic widget industry are insulated from the effects of competition; and (3) all other businesses suffer at the margin because fewer dollars are available to buy their products and services, thereby reducing demand. Insulating the industry from competition reduces the incentive for domestic suppliers to become more efficient and so heightens the risk that the industry will need long-term protection. This can have the effect of weakening still further the level of buyer demand in the economy if the indifference curves of supply and demand are not straight lines as in [figures 10.3](#) and [10.4](#). If buyers, for example, have a strong need for widgets—that is, they have a relatively **inelastic demand**—so that their demand does not drop much as the price increases, then the tariff takes dollars out of the consumer economy that might otherwise have gone to purchase other products.² That is, the extra

money spent on tariff-protected widgets (\$0.50 per widget) is money that can no longer be used to buy other goods and services. Therefore, although domestic widget makers do better (they are the winners given the government tax or tariff), workers in other, unprotected parts of the economy suffer a loss due to the diminished purchasing power created by the tariff. If those other workers and manufacturers have enough clout to get government protection then the economy is further harmed by government-induced protection that leads to higher prices and fewer dollars chasing reduced production. Consumers just have less money left over for other items they would otherwise buy. So the tariff rewards some domestic workers at the expense of other domestic workers, those who don't get protected by politicians.

TRY THIS

Examine [figure 10.4](#). How many widgets will buyers want to purchase at \$3.50 per widget? How many can the suppliers in group A provide at \$3.50? How many can the suppliers in group B provide at \$3.50? Make the same comparisons if the price is \$8.00 per widget. What will happen to supply, demand, and the equilibrium price if the government imposes a tax on buyers (such as a sales tax or a value-added tax)?

The examples we have discussed so far seem rather simple. Nevertheless, taken together, they tell a fundamental story. In the first example, in which there is no government intervention in the widget industry, supply responds to the price widgets can command. Likewise, there is consumer demand for widgets, and consumers who need or want widgets respond only to price. The preference of producers is to sell more widgets as long as doing so remains profitable. This means that if producers increase prices, as long as this does not result in negative returns, they will produce more widgets. The interest of consumers is to buy widgets at a low price, so they will buy more widgets as the price drops. Thus, widgets are bought and sold at the efficient, market price.

In the second and third examples, government action is added to the story. The government imposes a tax either on all producers or on certain, more efficient producers (which, in the example, happen to be foreign producers of widgets; the tax is, then, a tariff on importation designed to

nullify their comparative advantage). When the government enters the picture, consumers can end up being worse off, as we saw, in at least three ways: (1) the price of widgets—but not their quality—increases; (2) widgets become scarcer so widgets are harder to come by in shops; and (3) fewer dollars might remain to buy other goods and services after extra money is spent on widgets, thereby harming other parts of the economy. The government's intervention in both examples leads the price to rise from \$5.00 to about \$5.50 and the supply to drop from 150 to about 136. This is the direct consequence of government intervention in a properly operating, competitive market.

Naturally, in the real world there sometimes are good reasons for government intervention. Some of these are discussed later in this chapter and in the next chapter. In the example with tariffs, the reason for government intervention is to protect a domestic producer from the competition arising from more efficient foreign producers. There may be good *political* reasons for doing so. It is a greater stretch to make the case that there are good *economic* reasons. In fact, virtually all economists agree that free trade improves economic well-being in the aggregate, although, of course, for some workers and industries free trade represents a deadweight loss³ in personal welfare. And sometimes government interference in the market serves to protect other important political principles, such as national security or perhaps the environment, although we will see how this purpose is sometimes abused. Tariffs are not only about winning votes but very often that is their main incentive.

In the aggregate—that is, on average—welfare is improved by free trade. There are, however, winners and losers. Who they are, and under what circumstances, are fundamental to understanding the arguments for and against globalization. You might make a note now of who you think gains and who you think loses from free trade. You may be surprised by the answer as it unfolds in the next chapter.

TRADE AS A PUBLIC OR PRIVATE GOOD

If we treat widget production and consumption as indicative of all production and consumption, then we can see that the absence of government intervention in trade (or, put positively, governmental assurance of free trade) is a public good. Everyone is a consumer, and therefore, everyone derives a

benefit from the lower prices that arise without tariffs. Equally, it is important to note that tariffs act as private goods, benefiting (in our example) domestic widget makers (both the domestic companies and domestic workers that make widgets) at the expense of more efficient foreign competitors and of domestic consumers (and possibly the producers of other products, depending on the elasticity of supply and demand). For many years, for instance, India kept Boeing aircraft out of its domestic market to protect airplanes made by Hindustan Aeronautics, a domestic US aircraft maker. Clearly, the trade protection helped the workers and owners in that company but at the expense of anyone with the resources to fly in India and anyone those fliers would have been spending money on if they didn't have to pay more to fly. Likewise, India protected its domestic aluminum industry, providing a private gain for those associated with aluminum manufacture there but at the expense of hundreds of millions of people who were compelled to buy relatively low-quality Indian aluminum cookware at inflated, tariff-protected prices.

Tariffs, or fair trade, as such policies are sometimes labeled, are classic private goods subject to many of the political considerations discussed in the context of the selectorate theory. Unregulated trade is a public good that is likewise subject to the political considerations addressed in that same theory. It should be evident that free trade benefits many, whereas fair trade benefits only a few. For the few, of course, the benefit from tariffs may outweigh the value of the public benefit that everyone gets from free trade. Presumably, if no one benefited more from trade protection than from free trade (i.e., if the public-goods benefit outweighed the private-goods component for everyone), then there would be no tariffs or other means of making imports less competitive. In this regard, we should note that tariffs arise for more than one reason. Tariffs can be used to protect domestic industries from competition, as is commonly the case, but they can also be used to punish foreign governments that do not observe free-trade policies in their own right. President George W. Bush justified his call for a tariff on certain steel products in March 2002 by alleging unfair trade practices by Japan and Europe designed to bolster their steel industries at the expense of American industry. They countered—apparently correctly, given how readily the Bush administration negotiated a resolution favorable to Europe's and Japan's steel industries—by threatening retaliatory tariffs to compel the United States to enforce its free-trade obligations under the WTO.

In all these cases, domestic political considerations seem to be behind the

use of tariffs as foreign policy maneuvers. That still leaves us with questions about how tariffs and other trade policies are used by political elites to pick and choose winners and, in doing so, pick and choose how to reward their winning coalition or harm their adversary's coalition.

TRADE AND DOMESTIC WINNERS AND LOSERS

We have seen that free trade, on average, provides cheaper goods and services to consumers. It also provides more abundant goods and services both in quantity and in diversity. Yet free trade has not been the norm throughout history. I have already hinted at why this is so. Free trade is a public good, but the effects of trade involve both public- and private-goods components. Trade affects domestic producers and sellers differently from importers, exporters, and consumers, and government trade policies affect the wealth of each of these groups differently. So the distribution of wealth in a society depends, in part, on governmental approaches to trade. If trade is unrestricted, then domestic producers for the domestic market are at a potential disadvantage, and foreign exporters and domestic importers could have an advantage. Each, depending on how well tied in they are to the leadership's winning coalition, will lobby more or less effectively for their private, coalition-based gains at the expense of those not in the coalition. In the US setting, for instance, that means that labor union interests will more effectively distort trade policies to protect labor when the Democrats are in office. Large US corporate interests, as reflected by the Chamber of Commerce, the National Association of Manufacturers, and individual corporate lobbyists, will more successfully distort trade policies to protect their interests when the Republicans are in office. In smaller-coalition regimes, the private goods component of trade protection will loom considerably larger than in a large-coalition setting such as in the United States.

Trade restrictions can be achieved through lots of different means. They are not limited to tariffs. Imports can be restricted through tariffs or through nontariff barriers. Nontariff barriers are a more subtle way for governments to limit imports than imposing tariffs. Examples of nontariff barriers include environmental policy or health standards that exclude foreign-made products; quotas that restrict the quantity of an item that can be imported; restrictions on the immigration or emigration of people; or restrictions on the

opportunities to move capital to wherever it can be most profitably invested.

Nontariff barriers have become increasingly popular among members of the WTO. Nontariff barriers provide members with a useful domestic political solution to the WTO's restrictions on imposing limits on imported products. The signatories to the WTO need such domestic political means because the WTO has strict rules restricting the use of tariffs and the WTO, through its dispute resolution mechanisms has some credible ways to enforce compliance (Johns 2011). Rules about nontariff barriers to trade are harder to enforce. Still, the use of nontariff barriers has come under increasingly close scrutiny by the WTO and other international trade agreements, like NAFTA. This scrutiny is increasing because these barriers have assumed a major role in keeping goods and services from flowing freely across national borders despite the absence of protective tariffs.

For instance, France makes some extraordinarily fine cheeses from raw, unpasteurized milk. These soft cheeses (e.g., true Camembert and Brie) are at their peak flavor when they are less than sixty days old. France is a country with excellent health standards and a high standard of living, and the French have been enjoying these cheeses for centuries with no discernible ill effects. Nevertheless, such cheeses cannot be purchased in the United States. Among unpasteurized (raw-milk) cheeses, only those that are more than sixty days old are permitted to enter the United States. Why? They are kept out ostensibly to protect Americans from health risks although incidents of the disease against which Americans are ostensibly protected are extremely rare even in France.

In reality, the nontariff barrier on these cheeses just protects American cheese makers, especially from Wisconsin, New England, and California. We should not be surprised to learn that these cheese producers lobby for protection. Indeed, the political pressures to protect and advance the interests of the domestic cheese industry are strong enough that while young raw-milk cheeses from France are kept out of the market on health grounds, the US government also pushes to increase cheese consumption. The Department of Agriculture, for instance, created a marketing arm called Dairy Management to promote increased consumption of American-made cheeses. Remarkably, they did so even as they pushed for Americans, especially American children, to cut back on saturated fats in their diet in the hope of reducing obesity. Cheese is very high in fat content. You may have noticed, for instance, that in the past few years Domino's Pizza has advertised the improved quality of its

pizza, which has resulted in a great increase in their sales. The improvement came through increased cheese content and the help of the Dairy Management group to build a successful ad campaign (Moss 2010). So the government gives its support to a select group of domestic voters in the dairy industry and takes away at the margin the health of unorganized consumers who are growing fatter and at greater risk of heart disease in the interest of domestic politics. Similar claims of health risks are used to keep many foreign-made pharmaceuticals out of the US market for years after the drugs have proven safe and effective in places like Switzerland or Britain. That's great for American pharmaceutical firms but not so great for the average American's health.

TRY THIS

Provide a list of ten nontariff barriers that influence whether you or your family has access to particular goods and services. Think broadly about this question. For example, does the requirement of a passport or visa to travel to or from the United States act as a nontariff barrier? What effect does the Internet have on trade barriers? In addition to the examples I give here, how does health, environmental, safety, or cultural restrictions (e.g., movie ratings and censorship) create nontariff barriers? Can you give examples of such barriers imposed on US goods and services by other governments?

Similarly, it is difficult to bring into the United States an automobile that was purchased elsewhere. Daimler-Benz offers many models in Germany that cannot be bought in the United States. These vehicles can enter the United States only if they are retrofitted with expensive equipment to protect the environment. Of course, protecting the environment may provide a public good that justifies the nontariff restrictions imposed on some foreign cars; nevertheless, we should not lose sight of the fact that these restrictions also serve to limit consumer choices and to raise prices. Here we have an instance of a trade-off between environmental concerns and consumer interests that is resolved by government restrictions in favor of the environment. This, of course, can be a very good thing. But the US government fails to show an equal commitment to the environment when it comes to imposing restrictions

on popular but gas-guzzling and air-polluting sports utility vehicles (SUVs) manufactured in the United States. These get classified as trucks by the US government so that they are not subject to the emissions standards and safety standards imposed on passenger vehicles even though they obviously are passenger vehicles. Whether the actual trade-off adopted in the United States (or elsewhere) between the environment and free trade is motivated primarily by a desire for cleaner air or a desire for fewer imported vehicles is an issue worth close exploration.

Under the terms of NAFTA, the United States was expected to permit Mexican trucks to cross the border and proceed to their destinations within the United States. Yet the US Congress, citing environmental issues, for many years successfully restricted Mexican trucks from going more than twenty miles from the border. One effect of this nontariff barrier was that Mexican goods coming into the United States by truck had to be unloaded near the border and reloaded on to American trucks. This, of course, delayed (and therefore harmed) the delivery of perishable food stuffs; increased the cost of shipping goods to the United States; and so ultimately harmed the American consumer while protecting American truckers, tomato growers, shrimpers, and the list goes on. It also raised the price of electronics and any other goods shipped from Mexico to the United States, again harming the consumer. Mexico reciprocated by imposing restrictions on American trucks crossing into Mexico, thereby harming Mexican consumers but benefitting intense, organized interest groups. So great is the political pressure from interest groups—mostly American truckers—that the US Senate voted in September 2007 to ban Mexican trucks from the United States. Even the twenty-mile limit apparently was not enough to satisfy many American politicians. Of course, they are not devoid of arguments favoring a ban on Mexican trucks.



The driver of the first commercial truck from Mexico that will travel to Garland, Texas, from Apodaca, Nuevo Leon, Mexico, is greeted by a US Customs Agent as he crosses the World Trade Bridge from Nuevo Laredo, Tamaulipas, Mexico, into Laredo, Texas, on October 21, 2011.

Environmentalists can sensibly argue that the price distortion for Mexican products trucked into the United States is created by unfair trade practices originating in Mexico. The argument is that Mexican modes of transport, including trucks, are artificially cheap because their prices do not reflect the social cost of the pollution they generate and that the proper route to free trade would be to adjust Mexican environmental policy. Thus far, however, adjudication of claims on both sides of the border regarding obligations under NAFTA does not support this contention. It just seems that members of Congress, having been strongly lobbied by the powerful trucking industry and teamsters union, look for creative ways to protect American trucking despite the commitments under NAFTA. Not until March 2011, with Mexico's president Felipe Calderón at his side, did President Obama declare that the United States would allow Mexican trucks, as part of a *pilot project*, to continue into the interior of the United States. The first truck was not scheduled to actually cross into the interior until October 2011. Two border-district members of Congress, Duncan Hunter, R-CA, and Bob Filner, D-CA, were joined by the Teamsters Union president James Hoffa and union members from several states, in an effort to prevent the first truck's entry in Texas (Watson 2011). Here was a case of bipartisan protectionism hard at

work. Foreign trade policy was manipulated not for greater national welfare but for narrow domestic constituency-by-constituency political interests.

Before leaving the issue of nontariff barriers, we should be careful to recognize that eliminating these barriers to free trade is controversial precisely because of the difficulty of distinguishing such cynical ploys from policies sincerely aimed at protecting consumers, the environment, and workers. Consider the US Environmental Protection Agency (EPA) prohibitions against importing foods grown with certain pesticides such as DDT. Many Latin American farmers view this restriction as an unfair trade practice. Even reasonable people can reasonably disagree about whether the price distortion induced by the ban outweighs the negative health and medical care externalities associated with the use of these pesticides. How appealing the trade-off is between higher food prices with fewer pesticides in fruits, vegetables, and meat products and lower prices with more pesticides is sure to vary from society to society and from consumer to consumer.

These and many, many other examples, involving not only the United States but also almost every country in the world, reveal a common pattern of influence over trade protectionism. Again, free trade is a public good. Yet trade restrictions create private benefits—usually income—to only a few people. Add to this the fact that public goods, as we know, are generally underprovided for because people free ride (Olson 1965; Medina 2007). It is therefore difficult to motivate a large group of people—say consumers—to take action to protect their interests when their collective action will yield each one only a small gain relative to the costs of being an activist for free trade. This is a fundamental coordination problem that inhibits consumers from fully exercising their collective influence over government policies. Conversely, it is not so difficult to mobilize small groups of producers or workers whose incomes are significantly diminished if their jobs disappear because of foreign competition. For them, the stakes are high; for the average individual consumer, the marginal gain from their personal effort to reverse any particular trade restriction tends to be small. Trade protection is just another example of the collective action problem we met in [chapter 7](#). The strategic problem in trade policy is a classic coordination and distribution problem. The asymmetry between diffuse collective (or public) benefits and the concentrated costs (through lost private benefits) associated with trade is a substantial factor contributing to the existence of trade protectionism. In general, the greater the private benefits from protection, the more likely are

interest groups, lobbyists, and other coalitions of affected individuals to mobilize to exercise their political influence on leaders.

To the extent that a leader's hold on political office requires support from those who seek protection from foreign competition, we can expect that protection will be forthcoming. As we learned earlier, less democratic political systems, in which leaders rely on a small coalition to stay in office, use private benefits to reward backers more than do more democratic systems, in which leaders require a large coalition of supporters. So we should expect more trade protectionism in autocracies than in democracies. This is, in fact, the case. The average democratic regime is about 25 percent more open to trade than is the average autocratic regime, a difference that is extremely unlikely to be the result of chance (Bueno de Mesquita et al. 2003). Not all seekers of protection can expect to have their wishes fulfilled. They may not be essential supporters of the leadership. In that case, their appeals for protection are likely to fall on deaf ears. They may be in a relatively weak position to advance their cause, making it hard to get the attention of leaders.

In fact, Fiona McGillivray (2004) has shown that even in democracies we can trace the pattern of trade protection to the fundamentals of the political system. For instance, in polities where people vote for representatives of their district, such as the United States and Great Britain, firms with high employment in pivotal districts that can shape electoral outcomes—districts that are highly competitive between the parties—tend to get lots of trade protection if they want it. In proportional representation systems, where people vote for a list of candidates and the top vote-getters across the country win seats in parliament, this is not true. In those systems, protection tends to be less concentrated on individual firms and more concentrated on large industries across the country. So who gets protected varies according to their domestic political clout, and that, in turn, varies with the electoral rules that influence the size of the winning coalition.

THE CONSEQUENCE OF FREE TRADE: SOME EVIDENCE

Logic tells us that free trade creates many more winners than losers. Trade protection distorts a country's economy by insulating relatively inefficient industries from competition. Trade protection arises to protect the few with

political clout at the expense of the many. The few who press for protection can exercise their political influence effectively for two reasons. First, those who benefit from protection have a focused interest in persuading government to protect them. This focus makes it easier for them to overcome coordination problems. They are more likely to avoid the problem of free riding than are the many that benefit from the public good of free trade. Second, where the domestic political environment rewards leaders with long tenure in office if they compensate their backers with private goods, those seeking protection back leaders who will provide them with the protection they seek (a private good). Autocrats rely on dispensing private goods to stay in office and democrats rely more on providing public goods. I have already mentioned that autocratic governments are substantially less supportive of free trade than are democrats.

Now we can ask whether the preference for free trade translates into improved social well-being. We can think of social welfare in two distinct ways. Governments routinely must choose between policies that advance efficiency and policies that advance equity. By *efficiency* I mean that the policies do not interfere with the smooth working of a free market. In free markets, producers and consumers all seek their own comparative advantage. As a result, resources are used in the most efficient way possible, avoiding the waste and distortions that arise from regulation or politically motivated protection (whether of labor or management). But efficient markets can be cruel. Those who are less competitive suffer—sometimes through no fault of their own. Without a social safety net, such as social security, unemployment insurance, and progressive taxation, they might not be able to survive. Therefore, markets are often regulated and resources redistributed to improve equity—that is, the more equal treatment of all citizens.

Much of the debate about free trade or fair trade is really a debate about equity. Opponents of free trade may accept, along with virtually all economists, that free trade promotes efficiency, but they fear that it is inequitable. We have seen that, in theory, trade protectionism (and free trade also) creates winners and losers. Who wins and who loses is not systematically related to whether they are relatively wealthy or poor, as we will see in [chapter 11](#), but, rather, to who has incentives to press for protection and who is in a good position to overcome free rider problems and organize to use their political clout to get protection. Let's examine some historical evidence about the equity effects of trade policy.

Governments can be evaluated in terms of their **receptivity to trade**. For example, we can assess the percentage of a country's gross domestic product (GDP) that comes from exports and imports. Penn World Tables is a data source that has just such information in a variable called Openness in Current Prices (OPENNC).⁴ Likewise, we can evaluate how evenly or unevenly income is distributed within each country. The standard way of evaluating income inequality is through a **Gini index**. The higher the value of the Gini index, the less equally distributed is income across the people in a country. Essentially, the Gini index compares the percentage of the population, ranked from lowest income to highest, to the percentage of total income accounted for at each level. If, for instance, the top 10 percent of the population accounts for 30 percent of income while the bottom 10 percent accounts for only 1 percent then income is pretty unevenly distributed. The closer the cumulative percentage of the population is to the cumulative percentage of income, the more equally—or equitably—income is distributed.

If receptivity to trade (OPENNC) promotes inequality, then we will observe that the more open a country is to trade, on average, the larger is its Gini index score. Conversely, if openness to trade promotes more equal income distributions (by helping to lift the poor to narrow the gap with the rich), the Gini index will be closer to zero. In evaluating the relationship between trade openness and income inequality, I control for the independent impact of per capita income levels to make sure that whatever we discover is not simply a product of the differences in wealth across countries. This speaks directly to the worry of those who believe that free trade is just a means to make the rich richer at the expense of the poor and that the idea of free trade has been hijacked by large corporations to enrich themselves at the expense of workers. Naturally, large corporation executives, if left to their own devices (as we saw so dramatically in the run up to the 2008 financial crisis), would try to maximize their personal welfare, just as workers, if left to their own devices, would do the same. Free trade, however, ensures competition that makes any such inefficient exploitation of resources exceedingly difficult. Fair trade—that is, protectionism, on the other hand—is conceived to protect the few (workers and owners in relatively uncompetitive industries or firms provided their support is needed to help sustain a leader or party in power) at the expense of the many (consumers).

With the statistical control for per capita income in place, we can see the independent impact that trade openness has on income equality. To assess

this impact, I use all available data. These include data for the years 1979 to 2008 and for all countries for which data are available. There are 567 observations with the required information. These countries differ markedly in income levels, with the lowest in per capita income being the Democratic Republic of the Congo with a per capita income of \$90 in 2006 according to the World Bank and the highest being Luxembourg in 2000 (\$46,457). The United States, unfortunately, is missing from the data set.

What do we find? Wealthy countries in per capita income terms neither enjoy greater nor lesser income equality on average than do poor countries. The statistical estimate for the impact of the logarithm of per capita income (with the logarithm capturing order of magnitude differences) on income inequality is insignificant. In fact, the effect of per capita income on income inequality would arise by chance about 46 times out of 100 random draws from a sample of our size. With the assessment of income levels in mind, we can now evaluate the impact on income inequality from the degree of receptivity to trade. Countries vary markedly in their income inequality. The best 1 percent of countries have Gini indexes of less than twenty-one, and the worst 1 percent have Gini indexes over sixty-one. The average is forty-two and so too is the median in our sample. Remember, the closer the Gini index is to 0, the more equally income is distributed, and the closer it is to 100, the more income is in the hands of only a small segment of the population. The trade openness measure OPENC varies from a low of about 11 (meaning that 11 percent of GDP comes from imports and exports) to a high of more than 300 (an economy that is completely dependent on trade; such an economy produces and consumes very little that is not imported or made for export). The statistical evidence tells us that a country that is closed to trade (i.e., OPENC equals about 11) can expect a Gini index of forty-six. The evidence also tells us that an economy that is most open to trade (i.e., OPENC equals about 321) can anticipate a Gini index of about thirty. In other words, those who use the most trade protectionism also promote the greatest income inequality, keeping the poor poorer and keeping the rich richer. The probability that this relationship arose by chance is less than 1 in 1,000. What is more, if we ask what will happen to income inequality in the future as a result of openness to trade now, we discover that strong equity effects persist and that this remains true even correcting for country-specific effects (using a fixed effects model for those who are interested in the details).

Governments that favor free-trade policies promote greater income

equality (equity) than those that pursue protectionism. Those that eschew free trade protect special domestic interests. In fact, taking all other country-specific characteristics into account (through a statistical correction for country fixed effects), we find, as the strategic perspective embodied in selectorate theory leads us to expect: the larger the coalition on which a government depends for its survival in power, the more open it is to trade—that is, the freer its trade policies. Autocrats, not democrats, are most likely to favor protectionism, presumably on behalf of their small-coalition loyalists. Thus, free trade promotes income equity and efficiency; protectionism does the opposite, and how much of each a country has is a consequence of its domestic political infrastructure. Those who rely on a small coalition promote trade policies that are inequitable and inefficient at home.

SUMMARY

Trade is a vital and growing area of international interaction. Free trade is good for consumers, but it can harm particular industries that then lobby to be protected against “unfair” competition. Tariffs and other barriers to trade tend to increase the price of goods and services, creating artificial scarcity in exchange for domestic political gains. Every country can benefit from free trade even if a country’s producers are not the best at making anything. Everyone and every place has a comparative advantage in something. Specialization in producing the goods and services in which one has comparative advantage leads to efficient production. This means that there are more total goods in the marketplace, and they are available at a generally cheaper price. Protection distorts that efficiency by trading away economic advantage for localized, domestic political advantages.

Domestic political pressures encourage the private good of protectionism especially when the regime depends on a small coalition of backers. But protectionism is rarely good for the general economy. The measure of trade receptivity (OPENC), for instance, is positively and significantly associated with economic growth, as is dependence on a large coalition. Protectionist economies grow more slowly and especially leave poorer people worse off. The logic of economics encourages free trade. Domestic politics pushes against it—more weakly in democracies than in autocracies.

KEY TERMS

absolute advantage
arbitrage
currency convertibility
demand curves
equilibrium price
factors of production
fair trade
Gini index
gravity model
import
inelastic demand
law of diminishing returns
mercantilism
opportunity cost
production possibility frontier
productivity
receptivity to trade
specialization
supply curves

Answers:

1. b. Protecting a domestic business or industry generally costs jobs on balance although it saves jobs in the protected business or industry.
2. b. Absolute price advantage is not as important in production, importing, or exporting decisions as comparative advantage. Country A will concentrate on the product in which it has comparative advantage—relative efficiency—and country B will do the same.
3. It makes sense for people to specialize if they want to maximize their income from work or from investment. Self-sufficiency generally means

paying too much for some goods and services for which the workers or investors lack comparative advantage.

4. Protectionist policies tend to improve the incomes of people working and investing in the protected businesses but at the expense of reducing the average person's income. The overall effect of protectionism is to make income less equal, not more equal.

¹ The marginal cost is the cost of making the next unit of the good given the cost of the inputs needed to make that next unit, where the inputs include factors such as fixed expenses (e.g., machinery and rent) and variable costs (e.g., the price of materials and labor).

² It is worth noting that elasticities (of demand or supply) are evaluated as the momentary slopes of the supply and demand curves. Thus, the elasticity of demand or supply can change constantly, depending on the point on the curve at which the situation is located. Notice that, if the curve is linear, elasticities are constant and equal the slope of the curve.

³ A *deadweight loss* is essentially a loss without any offsetting benefit or compensation to those experiencing it.

⁴ Penn World Tables: http://pwt.econ.upenn.edu/php_site/pwt62/pwt62_form.php (accessed October 8, 2008).

11

Globalization

International Winners and Losers



Ships sit in the port awaiting loading and unloading at the Hutchinson Container Terminal, owned by Hutchinson Whampoa Limited, the largest container terminal in Hong Kong and one of the largest in the world. Most of Chinese shipping is done through this terminal.

OVERVIEW

- Globalization can be thought of as the implementation of a human right: freedom of movement, or **factor mobility** as it is referred to by economists.
- If currencies move freely across national boundaries, their values are set by the market pressures of supply and demand, and if independent central banks control the printing of money, then it is

more difficult for government leaders to interfere in global trade for narrow political gains.

- When labor and capital can freely move from place to place or industry to industry, each seeking its comparative advantage, then workers in poor countries and owners of capital in rich countries are the biggest beneficiaries, along with consumers, from globalization.
- As freedom of movement becomes restricted either by specialized uses for some capital or some labor or because governments prohibit free movement of money and labor, then globalization is stymied and poor people are held back by their own governments for political advantage.
- The economic return to labor and the economic return to capital are both significantly improved by free trade, a hallmark of globalization.

In [chapter 10](#), we saw how free trade and protectionism respond to domestic political pressures and we also saw what they do for the protectionist or free trading domestic economy. Trade's impact, of course, is not only domestic. By the very nature of trade, whatever politically motivated choices a government makes about trade, also has consequences for other countries and the people living in them. This external and broader social aspect of trade falls under the rubric of globalization. Just because protectionism may be bad for a country's economy and may distort its politics to favor a few at the expense of the many, still it is possible that at a global level free trade hurts many more than it helps. It is, however, also possible that the domestic benefits of free trade carry over globally so that free trade is economically beneficial everywhere. This chapter explores the logic underlying these competing arguments and demonstrates that those who protest globalization either are misinformed about the economics of trade or are well informed about advancing their own local political interests at the expense of general economic and political welfare. Those are pretty big and tough claims. The pages to follow should, I hope, help you see why they are correct.

In thinking about globalization and trade policy, we should think expansively. For example, currencies are traded in much the same way that cars, apples, consulting, or other products and services are traded. The number of Japanese yen it takes to buy an American dollar or a British pound fluctuates all the time as the supply and demand for dollars, pounds, yen, and other currencies rise and fall. Globalization raises questions about fiscal and monetary policies that may influence exchange rates, borrowing, interest rates, government solvency, and alternative ways for politicians to interfere with trade for their political advantage. All of these aspects of globalization are, in turn, associated with the cost to people, especially in developing countries, who want to buy baby formula and drugs to treat AIDS or to prevent polio, malaria, and the like. These concerns are certainly warranted although the proposed solutions too often reflect an inadequate understanding of either the economics or the politics of globalization.

Assumptions Check

1. When labor and capital can move freely in response to opportunities, who benefits most?
 - a. Labor in rich countries and owners of capital in poor countries benefit most.
 - b. Labor in poor countries and owners of capital in rich countries benefit most.
 - c. Only owners of capital win with factor mobility; labor always loses.
 - d. Only labor wins with factor mobility; owners of capital always lose.
2. Central banks, like the Fed (Federal Reserve Bank) in the United States _____.
 - a. do whatever the national leader wants to help that leader stay in power
 - b. do what they believe will keep inflation low even if it means increasing unemployment and hurting political leaders
 - c. do what they believe will keep unemployment low even if it means printing more money and so stimulating inflation

d. do whatever benefits voters even if it is bad for the economy in the long run

3. Globalization is better for _____.

a. dictators

b. democrats

c. all national political leaders

d. no national political leader

See end of chapter for answers.

Questions about globalization are, in their own way, really questions about one of the human rights we met in [chapter 9](#) although applied not only to people but also to money and investments. That human right is the freedom to move which economists call factor mobility. We already know that governments sometimes restrict the freedom of people to move into a country or, for that matter, to move out of their home country or even to move from one part of a country to another part. Likewise, governments often try to keep all the money and profits created at home right where they were created, limiting the ability of individuals or businesses to move their capital from one place to another. Economic considerations, as well as political considerations, also limit mobility of people (in the form of labor) and capital simply because the money or labor cannot be used as effectively in one place or one form of business or industry as another. All of this has important implications for the impact of globalization policies. We will see that the politics of globalization and who its winners and losers are revolve around the incentives politicians, workers, and investors have to facilitate or impede mobility. Thinking about globalization in terms of mobility will help us see that many anti-globalization sentiments are just misinformed arguments that can have the consequence of keeping really poor people poor.

GLOBALIZATION'S GOALS

The World Trade Organization (WTO), which we briefly met in earlier chapters, is perhaps the most important international organization that promotes globalization. It was established in 1995 to be the successor

organization to the General Agreement on Tariffs and Trade (GATT). The GATT was one of the international institutions developed in the aftermath of World War II to promote economic recovery and growth. The WTO, like the GATT, is designed to promote international trade and ensure that it flows as smoothly, freely, and predictably as possible. As such, it is the central international organization responsible for monitoring adherence to a free-trade regime, and it has important responsibilities as well regarding the enforcement of the terms of agreement. Its membership includes the vast majority of nations in the world, including the very rich, the very poor, and pretty much every nation in between. It seeks to strike a balance between the economic benefits of globalization and the reality that governments pursue political as well as economic goals. It emphasizes free trade moderated by prohibitions against what its member-states deem to be unfair trade practices, such as exporting goods below the cost of making them to undermine domestic competition in importing countries. The purpose of the WTO in short is to foster globalization through trade liberalization. It seeks to promote the international process that leads to the worldwide integration of market-driven exchanges in goods, services, and capital.

Against the WTO's objectives there are arguments, as we saw in [chapter 10](#), that trade liberalization undermines domestic production and domestic industry especially in start-up businesses and in developing, essentially start-up economies. An important objection to globalization is that it represents a threat to the well-being of newer economies trying to compete against better developed economies with well-entrenched industries and the benefits of years of infrastructure development. Globalization is also prominently argued to undermine particularly the well-being of poorer people while advantaging rich countries and giant, multinational corporations. These are serious objections that must be explored carefully as we will do here. A good starting place is with a little bit of the history of global trade and its importance for evening out prices.

Globalization, like trade, is neither new nor is it inevitable. To understand the current debate about globalization, it is useful to begin by considering what the world of commerce was like before the telegraph, the railroad, and perhaps even ships capable of traversing the deep water of the oceans. One of the central expectations from a globalized economy is that prices for goods and services will converge, eliminating or at least diminishing arbitrage opportunities. Put in historic context, it is interesting to realize that price

equalization apparently was not terribly different in Europe even in the thirteenth century from what it is today. The difference in prices between England and Holland for a bundle of eight commodities (barley, butter, cheese, eggs, oats, peas, silver, and wheat) in 1273, as reported by Kenneth Froot, Michael Kim, and Kenneth Rogoff (1997), is comparable to price differences observed across the English Channel in the 1990s. Greater price differences—as in textiles, beer, and wine—provided an impetus for the burgeoning trade in the High Middle Ages.

International trade, as we saw in [chapter 10](#), is stimulated by the possibility of buying something at a low price in one place and selling it for a higher price in another. But this stimulus to trade and the resultant price equalization can be and often is stymied by government intervention, and this too is nothing new. As we noted earlier, the mercantilist economic system, which persisted for several centuries, diminished the opportunity through arbitrage to equalize prices across states. The Spaniards, for instance, imported red dye made from Mexico's cochineal, a small beetle, and then sold it for a huge profit to European textile manufacturers eager for its vivid and highly desired color for which there was no good European substitute. Cochineal was so valuable that its economic impact was on a par with gold and silver exports from Mexico. Consequently, the Spanish government had a strong incentive to keep foreign competitors out of the cochineal market, and pirates and privateers had a strong incentive to take on Spanish merchant ships in hopes of seizing the goods whose market they were cut out of.

There was nothing new about the efforts to restrict access to cochineal. Indeed, the value of cochineal and the protection of that industry against competition was practiced by the Mexican government before the Spaniards appeared on the scene. The principles of economics are not limited to European or European-influenced societies and cultures. The Aztec emperor Moctezuma did much the same as the Spaniards, extracting wealth in the form of cochineal from his dependencies before the Spanish conquistadors arrived. In each case, Spanish and Mexican, the key to sustaining the high price of the dye was that the seller maintained a monopoly on access to cochineal. Thus, trade need not inherently lead to competition and price equalization. But it is believed that *free* trade in a global setting will do just that.

Price differences, it is thought, can be sustained only as long as a comparable product cannot be produced competitively anywhere else. As the

cost of moving goods from one location to another drops, however, competition from imports, if unregulated by government or by collusion among the domestic competitors of the imports, ensures that prices will fall, making access to the array of goods and services available to a broader segment of society. This pressure toward comparable prices spreads farther and farther from the point of production as the costs of shipping, storage, and information about goods and services falls, provided government does not intervene to maintain a price differential. The expected price equalization is an important feature of globalization, and it is a feature we experience in our everyday lives.

Price convergence has, in fact, been happening over the years as shipping costs have dropped and as information about prices in different parts of the world has spread and become common knowledge. Indeed, one of the most important consequences of the growth of the Internet is that information about the price of goods is available to just about anyone. So, too, is information about the reliability of different online sellers. As a result, it is possible to purchase goods at low prices on the web, which, in turn, forces shops to reduce their prices (subject to their advantages in providing service and in sometimes being more reliable than Internet shopping, both qualities for which some shoppers are willing to pay a premium).

Innumerable examples of price convergence are readily available. Think about the availability of tailored suits made in Hong Kong, New Zealand lamb, Swedish automobiles, Mexican tomatoes, Egyptian cotton, English marmalade, French wine, dresses designed in the United States but manufactured in Sri Lanka or China, online medical billing services in India, electronics assembled in El Salvador, movies from Italy, and other goods and services available in the American market. Think about American products, including television programming, movies, McDonald's hamburgers, Intel computer chips, Boeing airplanes, management consulting services, soybeans, wheat, Caterpillar earth moving equipment, Ford automobiles, and on and on that are available in much of the world marketplace. Each of these products succeeds in distant markets because it is competitive with any local substitutes. Shirts made in China are generally cheaper than shirts made in the United States even at comparable quality. Hence, American shirt makers must reduce their price, raise their quality, or go out of business. McDonald's hamburgers, likewise, are priced competitively with their substitutes in markets all over the world. People in China want the experience of

hamburgers, and those who can afford them prefer to buy their burgers from McDonald's (or maybe Burger King) rather than local substitutes. The consequences are that as more people in faraway places choose American burgers, their local competitors either improve their product to be competitive or they go out of business.

Often the response to such competition is, in fact, to improve quality. Toyotas sold in the United States used to be tinny, inexpensive cars. When the United States imposed a quota on how many Toyotas Japan could export to the United States, the carmaker found two solutions: (1) they made better cars that were more competitive in the US market and (2) they began assembling cars in the United States. A similar story could be told about English textile exports to the European continent in the Middle Ages and the English importation of French or Portuguese wine, Asian spices, and so forth during the same period. When and where trade was unrestricted, goods were exported and imported, prices fell, and consumers had a greater variety of choices. As the economist John Maynard Keynes aptly observed of the nineteenth century—a period of rapid progress toward globalization—compared to the world following the start of World War I:

What an extraordinary episode in the progress of man that age which came to an end in August 1914! ... The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth.... he could at the same time and by the same means adventure his wealth in the natural resources and new enterprise of any quarter of the world. (Keynes 1920, 11)

The process of globalization and the efforts to stymie it represent fundamental puzzles about the international political economy. A good place to begin to tackle the puzzles behind globalization is by looking at how government policies to allow or limit the movement of currencies, workers, and investment capital across borders influences, for good or bad, the global economy. We start with currency exchanges because without being able to pay for goods and services international trade naturally would grind to a halt.

CURRENCY MOBILITY

Before the invention of money, trade was limited to barter. You might have a

chicken you don't need and that I want. I might have a plow I am willing to let you use to turn your soil and plant some seeds. If we can agree that my plow is exactly worth your chicken, then we can make a deal. But I might think my plow is more valuable than your chicken. Then we might have to shift away from a strict barter arrangement or you will be stuck with the chicken and unplanted seeds and I will be stuck with the plow. I might instead allow you to use the plow for a certain amount of time in exchange for your chicken. Since we can divide time up infinitely, we could haggle back and forth to discover whether you and I are willing to make the exchange at the same price by agreeing on the time value of your chicken and my plow. All of this was made vastly simpler by the invention of money.

With money, we could easily allow supply and demand to dictate the value of a coin and, therefore, the cost of a chicken or rental of a plow. I would not have to have a plow to buy your chicken in exchange for a certain amount of time using a plow. You could take the coins I pay for the chicken and offer some of them to a person who has a plow but doesn't want your chicken. They, in turn, could use the coins they got for their plow's use to buy a hat to shade them from the sun or whatever else they want. And maybe, just maybe, the hat seller might want a chicken for dinner and so use some of the coins she got for the hat to buy your chicken. That way, the money makes its way around the economy, creating a multiplier effect: the same coins bought much more than their face value because they circulated, opening the door to many buyers and sellers and to economic growth.

Money creates the opportunity for much more efficient trading than can be achieved just through barter. The invention of paper money or promissory notes makes trade even easier. Coins were intended to transfer some valued metal in just the right quantity for what was being bought. But metal is heavy to carry around and expensive to extract from the ground. It is so much easier to buy something with a piece of paper such as a dollar bill; or a check; or something even easier, a piece of plastic—like a credit card or a digital scan on a smart phone. While that is true, it is also true that it is harder for the chicken seller to know how much a piece of paper or a check is really worth. Actually, the piece of paper itself has no value to speak of, but the promise behind the piece of paper money does.

I might promise to give the chicken seller \$5 for his chicken, but how does he know what the value of \$5 is? We are so used to paper money and credit cards that this question may seem ridiculous, but how about if I tell you

I will give you 5 Russian rubles or 5 Chinese yuan or 5 Greek drachmas for your chicken? Do you know how much any of those are worth? Probably not, but you probably also know that you can do a search on the web and learn how many rubles there are in one US dollar (or how many dollars in one ruble) and so forth. If you did that, you would quickly discover that Greek drachmas used to exist, but they don't anymore since Greece adopted the euro as its currency. And just about as quickly you would discover that there is talk of Greece leaving the eurozone—that is, giving up the euro currency as its own—and returning to the drachma. So then you would realize that how much a drachma is worth is going to be dictated, at least initially, by the Greek government. You would also learn how much a Chinese yuan, also called the renminbi, is worth and that this is a matter of great international contention. In the process, you would have discovered that money is great, but it is also complicated, especially when it is used to pay for goods and services across national frontiers.

One of the central functions of governments is to print money. How much they print and what rules they apply to their money influence how easily people can import goods or services, how easily they can export goods and services, and how readily they attract or repel foreign and domestic investments. And the decisions they make about each of these considerations shapes domestic political success and the prospects for global prosperity or impoverishment. [Table 11.1](#) summarizes some of the key ways that the value of money is determined along with some pluses and minuses of each.

As [table 11.1](#) makes clear, governments can adopt a variety of methods of supplying and otherwise regulating the value of their currency. The quantity of one currency that it takes to buy a unit of another currency is the exchange rate of those currencies. For instance, the exchange rate for converting Japanese yen to US dollars fluctuates all the time. [Figure 11.1](#) shows the exchange rate on a monthly basis since 1971.

[Figure 11.1](#) tells us that far fewer yen (¥) are needed to buy \$1 today than was true in the past. In January 1971, the yen was very weak compared to the dollar (or, equivalently, the dollar was very strong compared to the yen). It required about ¥350 to purchase a single dollar. In early 2012, it required less than ¥80 to buy \$1. That means that Japanese imports cost more today than they did back in 1971 or, in fact, more than at any time before 2012 shown in [figure 11.1](#). The value of the yen is determined by the supply and demand for that currency compared to the currency for which it is being exchanged (the

US \$ in our example). The Japanese government allows its currency to **float**, as is also true for the US dollar, the euro, the British pound, the Mexican peso, and many other currencies, thereby allowing supply and demand to set the currency's value. You can readily find the exchange rates for these currencies quoted every day on the financial pages of major newspapers or on the Internet.

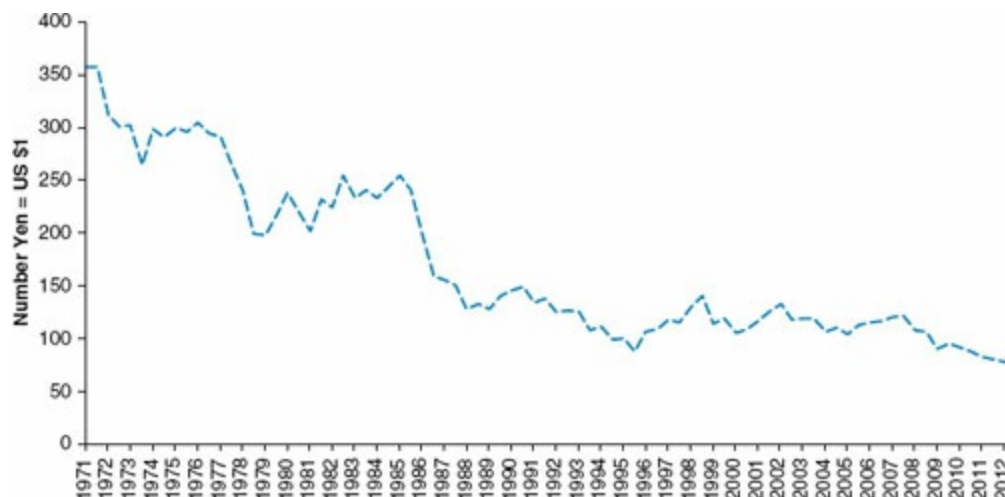
By allowing a currency to float the government that prints that currency is tying its own hands. It knows that if it prints much more money the supply will be larger and, all else being equal, the value of the currency will fall, meaning that imports will become relatively more expensive than exports. If a government takes money out of circulation then there may be less of the currency than there is demand. In that case the currency's value will increase, making imports cheaper and its exports costlier. So one way politicians can strengthen domestic businesses is to allow their currency to float while printing more money. Then the money-printer's goods and services will become cheaper in the global market, foreign goods will become more expensive, and so without a formal tariff, the government will have helped to keep foreign goods from competing in their domestic market. Of course, the constantly changing currency value as determined by the float will be reflected in the currency's market price. Floating increases the odds that the market rather than some politician decides the value of a country's currency.

TABLE 11.1	Valuing Money
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Valuing Money	Meaning	Effect
Float	Supply and demand in a free market determines money's value.	Encourages governments to find indirect methods to manipulate trade, such as printing money to encourage exports and restrict imports.
Fixed Exchange Rate	A predetermined quantity of one currency purchases a certain amount of the fixed exchange rate currency.	Does not allow the value of money to change in response to shifts in supply and demand, inviting inflation by printing too much money.
Pegged	One country's currency's value is tied to the fluctuating value of another country's currency so that the two move together in response to fluctuations in supply and demand for the "tying" currency.	Leaves the pegged currency's value vulnerable to economic developments, such as recession or high inflation, in the other country even if the pegging economy does not experience the same economic developments.
Dollarized	Using the US dollar as another country's currency.	Leaves the country vulnerable to strengthening or weakening of the dollar, which, in turn, effects the opportunity to export or import goods. Signals a lack of confidence in the home government's ability to allow supply and demand to influence economic policies.
Non Convertible	A country's currency cannot be sold for some quantity of another country's currency.	Encourages a black market in which currencies are illegally bought and sold. Limits the opportunity to make investments in foreign business activities and discourages foreign businesses from investing in the non-convertible currency's currency. Makes emigration difficult if a family's wealth cannot move with them.

The US dollar has not always floated. For instance, before President Richard Nixon abandoned the post–World War II Bretton Woods agreement in 1971, the dollar was set to a **fixed exchange rate** linked to gold. The US government guaranteed to give anyone on demand \$35 in exchange for an ounce of gold. This meant that the US government could not print more money without having the gold on hand to back it up. You can see in [figure 11.2](#) that the price of an ounce of gold in US dollars was constant until 1971 and then took off.

FIGURE 11.1 Japanese Yen to Dollar Exchange Rate: 1971–2012



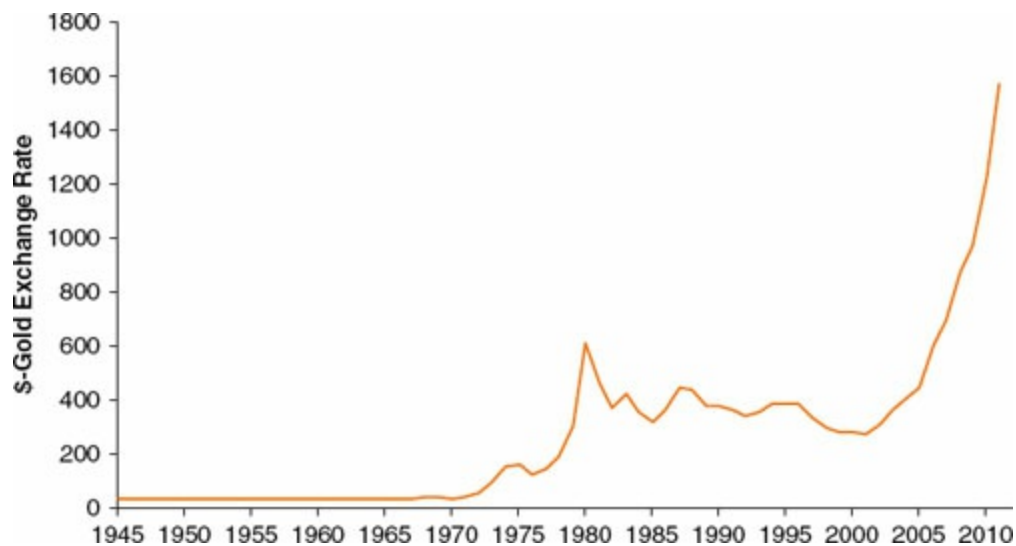
Source: Data from fxtop.com

Fixed exchange rates are another way to regulate and stabilize currency. When President Nixon broke the link between dollars and gold and allowed the dollar's value to fluctuate in the world market, the dollar's value sank dramatically. After a short while, it took more than \$350 to buy an ounce of gold. During the deepest part of the recession that began around 2007, the dollar sank so low that it took nearly \$1,600 to buy one ounce of gold. During the fixed exchange rate period, when the dollar's value was tied to gold, it was difficult for the government to manage inflationary pressures that would have cheapened its currency, making exports cheaper. It had to maintain enough gold on hand to cover the number of dollars it printed. This made the US dollar highly desirable and reliable in the global economy but at the expense of making it harder for the government to stimulate US exports by making US goods less expensive.

The large currency fluctuations we have looked at so far between the US dollar and the yen or gold has big economic consequences. Consider, for example, the relative cost of a Honda made in Japan in 2004, when the exchange rate was about $\text{¥}100 = \$1$. That car might have sold in Japan for $\text{¥}2.8$ million or, equivalently, \$28,000. Ignoring shipping costs, when the exchange rate was $\$1 = \text{¥}140$, then the exact same car at the exact same yen price could sell in the United States for \$20,000 without any loss in return in yen to Honda because each dollar earned by Honda can now be turned into more yen. Conversely, with the dollar much weaker compared to the yen, so that \$1 buys only about $\text{¥}75$, then the exact same Honda would have to sell for about \$37,000 to give Honda the same return. Reality is rather more

complicated, but this is sufficient to make the fundamental point. The strength or weakness of a currency strongly influences the cost of exports and imports, influencing the opportunity cost of buying a domestic product for a foreign product or vice versa. The decision to buy a Honda or a Ford, for example, can be greatly influenced by the currency exchange rate. Governments know this and so too do their citizens.

FIGURE 11.2 US Dollar Gold Exchange Rate: 1945–2011



Source: Data from goldprice.org

Politicians are often eager to manipulate their currency's value to strengthen imports or exports, wherever they get more political support. They get to decide, for example, how much to spend—that is, **fiscal policy**. But where they have an autonomous central bank they do not get to decide how much money to print or how quickly they can expand (or contract) the supply of money. In the United States, for instance, political leaders are constrained in their ability to manipulate the value of the currency for political gain because the Federal Reserve System (the Fed) sets **monetary policy**. Monetary policy determines the supply of money and the rate at which the supply changes. This, in turn, determines interest rates that shape how much it costs to borrow money. The Fed, like the European Union's central bank and other central banks, is largely autonomous. Its director and other officers serve long terms that extend well beyond any one president's term in office. As a result, the Fed is not easily intimidated by political pressure. When the

Fed raises or lowers interest rates, it makes dollars more or less expensive, thereby influencing the demand for dollars compared, for instance, to yen or euros. The alteration of interest rates is intended to ensure that the price for a dollar—that is, how many dollars it takes to buy something—is kept in check so that inflation is kept under control and the exchange rate is maintained within desired bounds. In this way, the Fed helps control the inclination of politicians to use the supply of money as a way to manipulate the economy and trade (Frieden 1987; Simmons 1994; Broz and Frieden 2001; Clark 2003).

TRY THIS

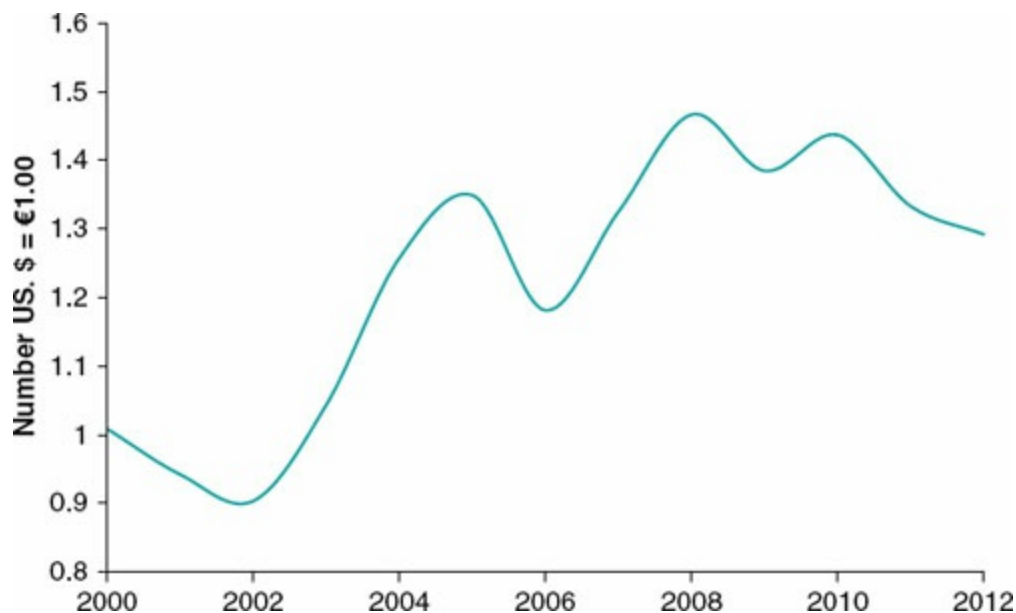
Go online and get data for the past five or ten years on the average monthly dollar-euro or dollar-pound exchange rate. Then get data for the same period on the price of a barrel of crude oil. (A good price to use is the price of West Texas Intermediate light sweet crude.) Plot the value of the dollar against the price of oil. Do you see a pattern? Now add to your plot the amount of crude oil sold on average each month during the same period. How well does that indicate the price of a barrel of oil? Do you have a view of how much supply and demand shape the price and how much decisions by the Fed shape the price? How might you test that view?

If currency manipulation for political ends is not reined in, then politicians have the flexibility to influence their economy. But this flexibility comes at a price. They may enjoy few of the benefits of a stable, predictable exchange rate for their currency and create uncertainty about how safe a place their country is to make investments. Uncertainty is the enemy of investors. Foreign investors with a choice of countries in which to risk their money are reluctant to put it at risk in places where unfettered government control can radically devalue their investments overnight. This is one reason that few investors seem willing to risk their money in many parts of Africa or in Argentina and many other places where inflation rates can soar to more than 1,000 percent per year or where the government can change the currency's value by fiat.

Consider, for instance, the recent strains on the value of the euro.

Investors like stable, predictable currencies to keep uncertainty to a minimum. As can be seen in [figure 11.3](#), the euro started out on a par with the US dollar so that they could be exchanged one-for-one. Quickly the euro retreated, so that only 80 American cents were needed to buy a euro but then the dollar went into a long, steady decline in value. The euro rose to more than \$1.50 in value right around the end of the period of economic expansion that preceded the recession that began in 2007 and 2008. Since then, the euro has declined relative to the dollar although it still remains at a relatively strong level historically. It is likely that the decline will continue as Europe's economic woes continue. On the day I am writing this, €1.00 will buy \$1.2549. To put this in perspective, on the same day in 2008, €1.00 could buy \$1.5742. This means that the euro is worth only about 80 percent of what it was worth four years ago. That certainly makes it much tougher for Europeans living in the eurozone to buy foreign-made goods.

FIGURE 11.3 Euro-US Dollar Exchange Rate: 2000–2012



Source: Data from European Central Bank, retrieved from <http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html>

The problem for the euro and for global economic growth in general is that many European governments have faced tremendous difficulties paying back money they borrowed in the past to pay for policies they were elected to

implement. For example, Spain, Ireland, Greece, Portugal, and Italy, to mention those in the deepest financial fix, all adopted social programs to protect people against the hardships of life and the uncertainties of competition in the workplace. Pharmacists in Greece, for instance, were guaranteed a return on their investment by government policy because Greece strictly limited the number of pharmacies that could open to regulate competition. This was a real benefit to those who had a license to open a pharmacy but a real hardship for those who wanted a license—and were qualified to be pharmacists—but couldn't get a license because then their shop would have created more competition than the Greek government would allow. And of course this was bad for Greek consumers. This is a small example of government's distortion of an economy, but it makes the point. Government provided benefits to citizens, but it didn't have enough revenue to pay for the benefits. So it used the promise of its economic growth to get loans at reasonable interest rates. When the recession hit, investors retreated, and the governments no longer had sufficient revenue to cover the cost of their loans and also to maintain their social policies.

If a government fails to pay back its debts, banks, of course, are reluctant to continue to lend to it. Given the budgetary shortfall, a government can solve the problem in the short term only by doing some mix of raising taxes, which slows growth, and cutting costs, which slows growth, or spending more to stimulate the economy. But to spend more, the government must either have more to spend or it must borrow more. But if it had more to spend or if it could borrow more it wouldn't be in its economic crisis to begin with. Raising taxes can give the government more to spend, but then there are so many more poor people than rich people that there just isn't enough to close the financial gap on the backs of the relatively well off. And, to return to the central theme of globalization, if the government raises taxes or cuts benefits then some money and some people can be expected to move to places where they will get more benefits or where their money won't be taxed as much. That requires labor and **capital mobility** to which we turn shortly.

Just as Europeans are facing stiff economic pressures due to their governmental policies coupled with the global recession, so too—even more so—do poor countries face serious difficulties in the global market. As we learned earlier, they just about always enjoy comparative advantage in some aspect of their economy—often in the price of labor—that gives them an opportunity for good terms of trade. Unfortunately, poor countries, often

lacking an independent central bank, frequently pursue monetary policies that give the government tremendous flexibility in manipulating the value of their currency and, as a result, the expected terms of trade. Naturally, buyers in the market for the goods or services that these countries export recognize the risk associated with doing business under such politically volatile circumstances. There are several solutions to such problems. Sometimes contracts are negotiated in terms of a currency other than the seller's currency. In these instances, the currency chosen is one that is relatively stable so that its value at the close of the contract is predictable.

The US dollar is often used in this way even when neither the buyer nor the seller is American. Crude oil, for instance, is bought and sold in US dollars all around the world. The British pound sterling is another currency that has been widely used for this purpose because it is deemed to have a trustworthy value. Today, however, following the economic malaise of the past five years or so, trust in any government is wavering. Now there is discussion about creating a bundle of currencies to use rather than relying on just one. This would allow buyers and sellers in international trade to hedge their bets rather than, so to speak, putting all of their eggs in one currency. The threat to the stability of the eurozone is a major contributor to the nervousness around the world in depending on any country's currency as the reserve currency on which everyone depends. The United States was cast in that role thanks to the post-World War II commitment to tie the dollar to the value of gold. Today some conservative economists, following the logic of the late Nobel laureate Milton Friedman, argue for a return to the gold standard as a way to stabilize international trade and global, if not US, inflation.

Other times, the price negotiated between the buyer and the seller takes into account the risk that the exchange rate when the contract is fulfilled will be markedly different from what it is when the contract is entered into. This is known as a risk premium, and it is very common for contracts with businesses in developing countries to involve one. This is a sensible solution to the expectation that the seller may not fulfill his or her obligations. It is also a reasonable way to address concern that the value of payment in the local currency will be manipulated by government leaders to assist their cronies. But if the contract is properly fulfilled and the currency was not manipulated, then the risk premium paid up front becomes a deadweight loss for the seller in the impoverished country.

One way to avoid the cost of such a risk premium, especially in poor countries, is to peg their currency to the value of another, relatively stable currency. A **currency peg** imposes a nearly fixed exchange rate (or one that is constrained to trade in a very narrow range) that determines the value of their currency by linking it to the value of another currency. The Hong Kong dollar and the Chinese yuan, for example, are pegged to the American dollar. Although it was true for a long time that \$1.00 equaled about 8.26 yuan, in recent years this has been adjusted. Today \$1.00 buys only about 6.3372 yuan, or renminbi as they are also known.

The peg helps to establish as much confidence in the Chinese yuan as people have in the US dollar. Even after Hong Kong was returned by Britain to the People's Republic of China on July 1, 1997, the Chinese government maintained the peg for the Hong Kong dollar to try to protect Hong Kong's economy; it had pegged its own currency to the dollar in 1995. But a currency peg can also serve a useful political purpose for the government adopting or adhering to the peg. Indeed, the Chinese yuan's tie to the US dollar is seen by American political leaders as an artificial means of keeping US goods out of China while increasing the attraction for Americans to buy goods made in China. The thinking is that if the yuan were allowed to float the market would value it more highly than the value implied by the peg. If the yuan is worth more than the pegged value, then the effect of the peg is to make American goods (or European goods, etc.) more expensive in China than they would otherwise be. A Chinese worker could buy more from the United States if his or her yuan went further. Conversely, American shoppers would need to pay more for Chinese goods if it took more dollars to buy renminbis than is true under the peg. The upshot is, according to many American politicians, the government-pegged value of the yuan is a nontariff barrier that reduces the ability of American goods to move across the Chinese frontier as imports, thereby hurting the American economy. The Chinese counter that they have gradually allowed the peg to shift, strengthening their currency against the dollar. From 2002 to 2005, the peg was pretty steady at about 8.25 yuan = \$1.00. Between 2005 and 2008—the start of the global recession—the renminbi strengthened to about 6.86 to the dollar and stayed there until around mid-2010 when it was allowed to strengthen further.

Some poor countries go even further than pegging their currency. They use the stable currency from another country, usually the US dollar. Several countries around the world formally or informally adopt **dollarization** as a

strategy. That means that they use the US dollar as their currency for all or much of their exchange. Panama, Ecuador, and East Timor use the dollar as their currency. Argentina has seriously considered dollarizing its economy in addition to having had serious discussions with Brazil about forming a common currency. Still others, such as Cuba, maintain their own currency even though a large proportion of economic exchange takes place in dollars and not in the local currency. This use of the dollar occurs because people lack confidence in the trustworthiness of their own currency.

There are several reasons for such distrust. One reason is currency manipulation, as already discussed. A second reason is that many currencies cannot be converted or can be converted only at a government-set, artificial price unrelated to the market value of the currency. Convertibility ensures that people can, on demand exchange their money for another currency, moving their money from one country to another with ease. Anyone who has traveled outside the United States knows that it is easy to buy euros or Mexican pesos or Japanese yen for dollars; that it is just as easy to buy dollars with euros, pesos, or yen; and that these currencies sell for the same price whether changed in a bank or between individuals on the street. That is, there is no problem turning one currency into the other, and there is no black-market premium one way or the other in the exchange. Equally, travelers in Argentina, Iraq, Bangladesh, Zimbabwe, and many other countries know that local citizens (as distinct from import and export businesses) either cannot readily turn their money into dollars or, if they can do so legally, can convert local currency into dollars only at exchange rates that bear little relationship to the supply and demand for the currencies involved. This is one of the reasons that black markets for money develop in such societies. Black markets are simply market adaptations to the artificially imposed government restrictions on how easily money from one country can be used to buy or sell goods in another; they are a way to try to overcome government efforts to prevent currency mobility.

Nonconvertibility is a nontariff barrier that can keep foreign products and foreign investment out of a country. When currencies are not readily converted, there is no easy way for foreign investors to send their profits back home or for people or firms to be paid in a currency that they can use outside the country to which they are selling. These losses in flexibility for investors and manufacturers mean increases in the costs and risks of selling or investing, and so fewer people will pursue the opportunity. Naturally, this

hurts not only the prospective sellers and prospective investors but also the local population, who are deprived of the opportunity to buy imported goods or to take advantage of the economic growth opportunities promoted by foreign investment. Not surprisingly, and as we will see in the remainder of this chapter, such maneuvers are often a great benefit to the members of a government's winning coalition, especially when that coalition is small. Overwhelmingly, countries with nonconvertible currencies also tend not to be democratic. To see why this is true, we turn now to the mobility of two critical factors of production: (1) labor and (2) capital.

FACTORS OF PRODUCTION

People's interests regarding trade are shaped both by their economic interests and by their political interests. Whichever our emphasis is on, we are still addressing politics. Trade policies, after all, are set by government and as such they are political. They influence the ease with which labor and capital, called factors of production, can move. Labor and capital are called factors of production because, well, they are the factors or essential elements to making things besides the raw materials needed for production.

Let us divide all people in any given country into two basic economic groups: (1) those who provide labor and (2) those who provide capital—or, speaking a bit more casually, poor and rich. Workers would like to earn as much as they can and, taking personal benefits like proximity to family as well as income into account, they will consider moving to where they can earn more *if* they have the opportunity to move. Exactly the same is true for investors. They want to put their capital where it will earn the most for them and are willing to move it to new businesses or locations if they have the opportunity to do so. Whether labor or capital has the opportunity to move, however, is determined both by political and economic considerations.

Let us also assume that a country makes two products: (1) widgets and (2) gadgets. Widget manufacturing is capital intensive, whereas gadget manufacturing is labor intensive. By this, I mean that the ratio of capital to labor used for widgets is larger than it is for gadgets. In plain English, the widget business relies more heavily on capital (loosely, money) than on labor (loosely, workers) to produce its product, and the gadget industry uses labor more intensively than it does capital to make its product. By knowing the relative economic returns on the factors of production, we can infer how

globalization affects the interests of people based on the extent to which they are better at providing labor or capital in the marketplace and the extent to which labor and capital can easily move from place to place or from industry to industry.

One place to begin our analysis is by asking whether a given country is more likely to export labor-intensive products or capital-intensive products. Imagine, for example, a rich country, such as France, Germany, Japan, Singapore, or the United States, and a poor country, such as China, Ghana, India, or Peru. Can we say anything about their exports based on the relative abundance of the two factors of production, capital, and labor? In fact, we can! The **Heckscher-Ohlin theorem** allows us to do so. This theorem, or logically proven proposition, addresses the mix of a country's exports and imports based on the relative abundance of the factors of production in its economy. Specifically, in purely economic terms (ignoring the central role of politics), countries with a relative abundance of capital, like many rich countries, tend to export products that rely strongly on the use of capital to buy, for instance, expensive machinery. Such capital-intensive economies are better off making and exporting products that use their abundant resource (capital in this case) because they have a comparative advantage in the production of such products. They are also better off importing the products that rely on their relatively scarce factor of production. For rich countries this tends to be labor-intensive products like clothing. Poor countries tend to have a relative abundance of labor and so use labor intensively in production. They tend to export labor-intensive products and import capital-intensive products. The Hecksher-Olin theorem refines the original statement of comparative advantage to trace out its logical implication for the types of products and services that different economies are likely to export and import.

The dichotomy I have drawn between rich and poor countries is quite a bit simpler than reality, but it is essentially right. The complicating factor is the word *relative* when speaking about the abundance of different factors of production. The Hecksher-Ohlin theorem, for instance, can also be readily applied to trade between two wealthy economies or two poor economies because, in each case, one factor will be relatively more abundant in one country than in the other. As we learned in [chapter 10](#), comparative advantage is always about the relative use of resources and the associated opportunity costs of producing more of one thing or another. That applies in any comparison of relative advantage on the factors of production.



TRY THIS

Using the Internet or an annual yearbook, find a list of the leading exports and imports of Brazil, China, the Netherlands, Nigeria, and the United States, or select your own list of countries to look up. In each case, see if you can find out whether the exports or imports are relatively labor intensive or capital intensive. How open is each of these economies to free trade? What trade protection, if any, is there against foreign imports in these countries? Are the countries you selected members of the WTO?

Returning to the world of widgets and gadgets, let us imagine that there are two countries, Richland and Poorland, and that capital is relatively abundant in Richland and labor is relatively abundant in Poorland. The Heckscher-Ohlin theorem leads us to expect that Richland will want to export capital-intensive widgets to Poorland and Poorland will want to export labor-intensive gadgets to Richland. I say *want* because we have not yet considered whether labor, capital, or both in some industry will seek government protection in either Richland or Poorland. As we know, government leaders are often more interested in their personal hold on power than they are in following the strictures of textbook economic policies. Just because some particular export or import policy might be economically best doesn't mean it is politically best.

Who will seek government protection from foreign competition depends on several considerations beyond those considered in [chapter 10](#). One consideration is related to the freedom of movement of labor and capital. It turns out the mobility of the factors of production can have a very big impact on who seeks government protection from competition and how this influences the welfare of different groups of people in the global economy.

MOBILITY OF FACTORS OF PRODUCTION

Capital and labor can both be mobile. If both are highly mobile, that means that workers and capital can both move easily from one job to another. Workers (labor), for instance, might move from producing widgets to producing gadgets or other goods within their own country, or they might

even move to jobs in another country. Naturally, all else being equal, they will want to move only if they expect to be better off as a result of changing positions. Likewise, if capital is mobile, this means that investors can move their capital freely between businesses or even across country boundaries, so that capital could shift from Richland to Poorland (or vice versa). Like labor, all else being equal, owners of capital will not move their resource unless they expect that moving it will give a better return than keeping it where it is. So workers might contemplate moving to a new country if there are better job opportunities for them in doing so and investors might make the same calculation about where to put their capital.

The millions of poor people who moved from Ireland, Poland, China, Mexico, and just about anywhere else to the United States during the nineteenth and twentieth century were exercising their right to move in pursuit of their economic advantage. Immigration is a basic example of **labor mobility**. Similarly, today there are substantial European and US corporate investments in overseas production in various parts of Asia or Latin America, whereas there were far fewer such investments a century ago. Investors, by shifting vast amounts of capital in the form of **foreign direct investments (FDIs)**, exercise their right to pursue capital mobility. Corporations invest in other places than their home base because they expect a better return on their investment by doing so. Of course, both labor mobility and capital mobility can be distorted by political choices. Corporations might invest overseas, for instance, because they pay lower taxes on the return from their investment than they would pay for the same investment at home. In this case, it is not that their capital is used more efficiently in an economic production sense by investing abroad but rather differences in political choices by the governing tax authorities make it attractive to move capital even if the strictly economic efficiency of production is not greater in the place to which the capital is moved compared to the place where it originated. The same holds for labor. Political oppression, for instance, might lead working people to flee their homeland and move elsewhere not because they have a better job opportunity per se but because their home government makes them comparatively worse off than they would be locating somewhere else if they can. That may help us understand why many poor workers have been willing to take great personal risks to move away from their homes and seek refuge in countries like the United States.

To illustrate the economic point about labor mobility, consider why many

relatively unskilled Mexican workers migrate to the United States. Their labor is mobile to the extent that they can perform unskilled jobs anywhere. Although poorly paid by US standards, these Mexican workers get paid considerably more in the US market than they do in the Mexican market. Consistent with the Heckscher-Ohlin theorem, Mexico exports labor-intensive “products,” including labor itself, to the United States. Unskilled Mexican workers, when they can, exercise their right to labor mobility (workers moving from one location to another or from one business to another) by seeking a better return on their labor by coming to the United States. This is doubly attractive because, since dollars are easily converted into pesos, these workers can send money back home to help improve the quality of life for their families and communities. Many learn skills and save money and then return home to open businesses and improve their home country’s economy, improving its ability to purchase American-made goods and services. Many more cannot enter the United States because the US government restricts the mobility of labor across the national frontier. Restrictions on immigration (entering a country) or on emigration (leaving a country) are examples of political choices to limit labor mobility so that workers cannot seek out their comparative advantage.

Let’s delve a bit deeper into why many corporations, including many US corporations, invest in businesses in Mexico, China, or India. These economies, starting from a low baseline and with relatively cheap labor, appear to have better growth prospects than does the United States over the next several years. Higher growth is likely to mean a better return to capital in those markets than in the United States. So, again consistent with the Heckscher-Ohlin theorem, US firms export capital by investing in places with high-growth prospects when they can, moving capital to where it is expected to produce the best return. Not all governments, however, permit capital mobility (money and expensive equipment being moved from one location to another or from one business to another) across their frontiers. They restrict the movement of capital by limiting the ownership rights and opportunities of foreign investors seeking to enter their marketplace or they don’t allow money from the country’s currency to be converted into the investing company’s currency. The political purpose behind such limitations is for politicians to strengthen their own political hand at the expense of allowing capital, or labor, to move to where they will yield the greatest return.

The two examples help clarify what is meant by *labor mobility* and

capital mobility, but they also highlight two of the many reasons that labor or capital might not be mobile. In addition to the government restrictions alluded to, it is also possible that neither labor nor capital is mobile because either or both might be useful only in so specialized a way that their productive capacity does not easily translate into a comparable productive capacity if used differently. This is known as **asset specificity**. Skilled surgeons, for example, cannot easily move to positions as professional football players; nor can many professional athletes move easily into positions as surgeons. Neither athletes nor surgeons have the requisite specialized skills to do the other's job productively. One consequence of specialization (in pursuit of comparative advantage) is a decrease in factor mobility. Of course, neither labor nor capital nor even surgeons and athletes are completely immobile in reality. People can and do retool, but this is expensive in time and money, so it is done only if the expected benefits from learning new skills outweigh the expected costs. It is likely, for example, that many blacksmiths in the early twentieth century retooled to do new jobs as the automobile supplanted the horse-drawn technology of the nineteenth century. In the past thirty years or so, we can see that many people in the typewriter manufacturing and repair industries retooled as typewriters were supplanted by personal computers. Typewriter repair shops used to be commonplace; now they essentially no longer exist.

Still another possible scenario is that one factor of production is substantially more mobile than the other. Whether capital is likely to be more mobile than labor, or vice versa, depends on how specialized the use of labor is in a given economy and on how specialized the use of capital is, as well as on government policies restricting the movement of one or the other. The economic incentives to seek protection depend, in part, on whether (1) both labor and capital are mobile, (2) only one is mobile, or (3) neither is mobile (Hiscox 2002). I proceed by examining these three situations in turn.

Interindustry Factor Mobility

If both labor and capital can move freely, they are both mobile. The **Stolper-Samuelson theorem** teaches us that the factor that is more intensively used to make a product enjoys a return that is even larger than the increased price the product commands. This is a complicated statement, so let's break it down into its important parts using our Richland and Poorland example. It is

really important to understand this statement because it is crucial to understanding who the biggest winners (and losers, if any) are from globalization.

The widget industry is capital intensive. Richland is more competitive at making widgets than gadgets—at which Poorland has the advantage. As the price of widgets increases, the economic return (profit) to widget producers in Richland increases at a faster rate than does the return to labor in Richland from making gadgets. Thought of simply, as the demand for dollars (capital) increases so too does the price of a dollar (capital). Turning to labor we can make exactly the same statements. In Poorland, there is a more than proportional return on the efforts of workers as the price of gadgets—the labor-intensive product—increases given that Poorland has a labor-intensive economy.

Now let us suppose that for some reason—say, a policy shift favoring free trade—the price of imports, or gadgets, falls in Richland as more gadgets enter the market. One consequence of the drop in price is that Richland's domestic gadget producers will make fewer gadgets (see the Supply A curve in [figure 10.3](#)) and so will need less labor. Another consequence is that the relative price of Richland's widgets, its capital-intensive export good, will rise. The rise in the relative price of widgets will lead to an increased demand for capital because any expansion in widget production is capital-intensive and if more widgets can be sold by exporting them then more profit can be earned by investing more capital in widget production. This means that labor in Richland will be in relatively abundant supply following the decrease in the price of gadgets, and capital will be in relatively short supply following the increase in the price of widgets. The widget makers will not pick up all the slack in labor because, after all, widget making is capital intensive. In fact, because the demand for capital in Richland rises in this example while the demand for labor falls in Richland, the gap in the price capital and labor can command in Richland increases in capital's favor provided that both labor and capital are mobile across the economy. If, for instance, labor were not mobile because of specialization, freeing up workers who used to make gadgets will not have an effect on producers of some third product so long as the gadget workers lack the skills to move into the third industry.

At the same time, the relative price of capital rises across the economy—not just in the widget business but all across the economy as long as capital is mobile and so can as easily be invested in one business as in another. This is

because, if there is mobility across industries, capital will move to wherever it commands its highest price. Labor, of course, will do exactly the same, looking for the highest price that it can command. Because the demand for capital has grown, the only way to attract new capital is to pay more for it by giving higher returns. Because the demand for labor has dropped relative to capital, the only way for labor to be used more is to reduce its relative price so that it becomes more competitive. Put grossly, with full mobility of both labor and capital, the rich in Richland will get richer and the poor in Richland will get poorer, all relatively speaking. But, as we will see, that does not mean that labor can't get richer for surely it can if it is prepared to be mobile and move (in use, if not in individual workers) especially to those places where the demand for labor exceeds its supply—that is, in labor-intensive economies.

In Poorland, it is likely that the rich will suffer relative to the poor if free trade is in effect, and so labor and capital are both mobile. The return to labor is likely to increase relatively more than the return to capital in Poorland because in Poorland labor, not capital, is the more intensively used factor of production. Gadget makers, now exporting more gadgets to Richland, will need more labor to make more gadgets and so will bid up the price of labor across their economy (or neighboring economies) to attract more workers away from less competitive industries or away from poorer-paying locales. That is one reason that we see so many people in third-world countries moving from the countryside to the cities where there is greater demand for labor. The gadget makers need workers. They probably will not need much more capital, and so capital will have a harder time finding possible users of its investment potential. Therefore, the price of capital (or the return on investments) will drop relative to labor in Poorland as those who provide capital compete to find uses for their less-in-demand factor of production.

The argument thus far shows us that in a country with industries that rely relatively more heavily on capital than on labor—like Richland—then free trade and freedom of movement makes the owners of potential investment capital winners and the owners of labor, relatively speaking, losers. But in a country where industry is relatively labor intensive—like Poorland—free trade is a winning strategy for labor and a losing strategy for capital. So, to the extent that both factors of production are mobile, globalization of free trade has four economic effects (Magee 1978; Hill and Mendez 1983; McKeown 1984; Rogowski 1989). Specifically, with interindustry factor

mobility (the factors of production—capital and labor—being able to move from one location to another or from one business to another), the following occurs:

1. Workers in poor countries become wealthier.
2. Owners of capital in rich countries become wealthier.
3. Owners of capital in poor countries do relatively worse (but absolutely better) with free trade.
4. Labor in rich countries does relatively worse (but absolutely better) with free trade.

It is noteworthy that the outspoken critics of globalization in places like the United States and Western Europe include labor union leaders and their members, as well as environmentalists and students. Now we can pause to think about their opposition in the context of mobile factors of production and the economic returns from free trade versus trade protectionism. These highly visible groups of demonstrators against globalization can be described as people living in wealthy countries who share a dislike for big business. To be sure, they are right in believing that, if capital and labor are both mobile, then in countries with an abundance of capital such as their countries, capital-intensive big business is a winner from free trade. The losers in a capital-intensive economy—most prominently labor—are most likely to exercise their political clout to try to stop free trade and promote protection, protesting corporate policies and pro-globalization governmental policies. Debate about free trade versus trade protection is extremely salient for them because its outcome directly influences their welfare. But antiglobalization demonstrators are mistaken about the effects on workers in poor countries that tend to emphasize labor-intensive industry. In those countries, we should expect labor's relative return to improve disproportionately as a result of free trade, while the return to capital does not. That is, rich businesspeople in poor countries with mobile factors of production can be expected to oppose free trade. And laborers and unions can be expected to support free trade in poor countries with interindustry factor mobility. We will see some strongly supportive empirical evidence about the return to labor under free trade at the end of this chapter. For now, we can note that tens of millions, maybe even hundreds of millions, of Chinese and Indian workers have been lifted out of poverty by the growth-oriented shift to freer (but, alas, not fully free) trade

policies in their countries.

So, if both factors of production are mobile, it is incorrect to think that free trade helps the rich or the poor across the board and harms the other economic class. Rather, free trade allows each economy to pursue its comparative advantage in labor or capital so that it competes as efficiently as it can in the worldwide market. Where labor is the abundant factor—as in much of the developing world—protectionism as a trade policy harms workers and benefits capitalists. That means that antiglobalization stances turn out to mean protesting the benefits of free trade to the world's really poor in places like India or China in order to protect the world's relatively rich poor in places like the United States or England. In a world with perfect factor mobility across industries and locations, we can see that political pressure will arise for protection against foreign competition among those whose factor of production—whether it is capital or labor—is relatively disadvantaged by free trade. In a world with perfect factor mobility, trade conflict will pretty much be along class lines. Either labor (workers and unions) will seek protection and capital (corporate management), relatively speaking, will not, or capital will seek protection and, again relatively speaking, labor will not. This conclusion helps us understand the opposition to globalization by labor and students in wealthy countries.

Students typically are not yet significant owners of capital and, on average, they do not yet have highly specialized skills that endow them with asset specificity that allows them to command a high price as labor. They naturally identify with the relatively worse off in their rich society. Labor union leaders have as their mission to improve the conditions for labor in their own industry or community; they are not as interested in the welfare of laborers in other industries or in other countries. If they were, their union members would not elect them to head their unions. The opponents of free trade in the United States align with the interests of labor at the expense of capital; that is, they side with workers in their own country at the expense of business owners. However, as I have noted, they are *also* siding against poorer workers in poor, labor-intensive countries, and probably without realizing it, they are siding with the big businesses of developing countries. They are arguing to keep the world's really poor, poor.



Trainees with Infosys sit in a class learning “hard skills” in the Global Education Center of the Mysore Campus, India, on January 9, 2006. Infosys, one of the fastest-growing offshore outsourcing companies in India, hires more than two dozen new employees daily and trains new hires primarily from India and China at this Mysore campus. These workers are among the millions of beneficiaries of globalization. Not only do they get jobs that previously may not have existed but they also spend some of the money they earn on purchasing imported goods that otherwise would not have been made or sold.

The big magnates in developing countries may be disadvantaged in their ability to compete with capital-intensive goods made in wealthier countries, and so they seek protection against capital-intensive imports. In India, for example, the only available automobile for many years was the Hindustan Ambassador. The Hindustan Ambassador is essentially built around the design for a late 1940s Nash automobile. Nash has been out of business in the United States for many decades. The Hindustan Ambassador is an antiquated automobile design that cannot compete with foreign imports. Until relatively recently, the Indian government’s solution was to bow to political pressure (in the name of national self-sufficiency) to make it prohibitively expensive to import foreign cars into India. This was equally true for the availability of aluminum, many types of iron and steel, foodstuffs, and medical supplies.

The upshot was a great distortion of the economy to the benefit of wealthy Indian producers and at the expense of Indian consumers and workers, helping to make the rich very rich and the poor exceedingly poor. Since India shifted to a freer trade policy (although it still is far from having a free-trade policy and the Hindustan Ambassador is still the dominant automobile in India), its economic growth rate has skyrocketed, a substantial middle class in the hundreds of millions of people has emerged, and its economy provides improved opportunities for its poor workers. Indian skilled workers who had moved to places like Silicon Valley in California have begun to move back to India to start up high-tech companies there. Their labor was mobile across space, and they voted with their feet to get the best return on their efforts, first by emigrating from India and now in droves by returning.¹

No Interindustry Factor Mobility

Perfectly mobile factors of production are an ideal sought by globalization. Such perfection may be achieved in the future, but it is not an accurate description of the mobility of capital or labor on the ground, in part because governments restrict labor's movement across borders and also limit the shifting of capital from one place or one currency to another. Because the true adjustment of prices and returns resulting from free trade is not instantaneous without perfect factor mobility, the predictions of the Stolper-Samuelson theorem need to be examined in regard to their effects in the shorter term. In the short run, in some places factor mobility might be quite limited. In that case, the previously given conclusions would have to be reassessed. To assess the short-term effects, let's examine what happens following the introduction of a (politically motivated) tariff when neither labor nor capital is mobile at all.

If neither labor nor capital can move across industries or national borders; if the factors of production are completely immobile, then a new equilibrium price cannot be achieved by having capital and labor move from one industry to another to seek their best return. Without any mobility labor and capital are stuck where they are doing what they are doing. North Korea, or the Democratic People's Republic of Korea (DPRK), comes close to such a society in which labor and capital are both nearly completely immobile. The authoritarian government of North Korea does not permit people to move from one part of the country to another (despite the DPRK's constitutional

declaration to the contrary); nor does it allow people to change jobs at will. Rather, labor mobility is strictly determined by the whim or political exigencies of the government. Being a communist state, North Korea also does not promote capital investment by its citizens and permits capital movement by foreigners only within a narrow special economic zone. In such a setting, if a tariff is imposed, the impact of the resulting price change is localized to the specific industry and the specific factor of production (labor or capital) that is impacted. The impact is not directly felt across the entire economy. This means that if neither labor nor capital can be moved around to find their best use then the effect felt from a tariff will be industry specific, creating a government-induced rivalry across businesses and across towns and regions within the country.

Let us assume that the prices commanded by labor and capital are completely flexible so that they can change readily. Let us also assume that the economy has full employment prior to the introduction of a tariff (as is nominally true in North Korea). This means that there is no extra supply of either factor because both factors are fully used. With these conditions in place, the relative returns to labor and capital do not change when the government imposes a tariff. This is radically different from the (Stolper-Samuelson) world with complete interindustry mobility. However, an important change does occur when a tariff is imposed to limit foreign competition. The amount paid for capital and labor within the protected industry increases relative to unprotected industries.

If a tariff is imposed on gadgets, for instance, both capital and labor in the gadget industry will benefit relative to capital and labor in the widget industry. In our previous case with factor mobility, we saw that policy preferences about protection are factor dependent. With immobile factors of production, policy pressures for trade protection arise on an industry-by-industry basis rather than on a factor-by-factor basis. So, with immobile factors, labor and capital in the gadget business will seek government protection and be pitted politically against labor and capital in the widget industry. In this case, some of the relatively well-off people and some of the relatively poor people will benefit from trade protection, just as some of each group in the unprotected industries will be losers. Thus, who tries to organize for protection differs depending on factor mobility.

With full mobility, we learned to expect to see class warfare over trade policy. In contrast, with immobility, we expect to see interindustry warfare.

Government leaders, then, can easily pick winners and losers, probably picking winning (and losing) industries to be in line with whose support the government needs. Consumers, in general, of course are losers along with labor and capital in Poorland's unprotected industries, all of whom are victims of the tariff (Alt and Gilligan 1994).

These conclusions can help us understand the political motivation behind Congress's protection of the American farming industry through the use of government price supports or subsidies. As Daron Acemoglu and James Robinson (2001) demonstrate, members of Congress from farm districts have incentives to ensure that the farm population is protected against people moving away or shifting to other types of work, thereby limiting their mobility. Let us take their example of farming versus manufacturing. Politicians can protect themselves and their winning coalition by using price supports rather than handing cash over to farmers because price supports—guaranteeing a certain minimum price, for instance, for corn in Iowa—discourage farm workers from moving out of farming and into manufacturing jobs. This is accomplished because price supports artificially inflate the economic return on farming. Then those receiving price supports are likely to remain the loyal supporters of the politicians who protect them. Cash payments to existing farmers, in contrast, end with them; cash payments do not provide a future stream of benefits to those who might become farmers in the future. Instead, the farmer can take cash payments and turn around and invest them, for example, in manufacturing. Then that ex-farmer no longer needs the ongoing price supports from a local politician. That means the ex-farmer's loyalty to the politician is weakened. Thus, politicians use price-supports to discourage labor mobility (from farming to manufacturing) and, thereby, create exactly the sort of interindustry conflict just described. As with all such distortions, consumers—and we all are consumers—are the losers.

In a small coalition, autocratic setting, preventing labor and capital mobility can have even bigger political advantages. Remember, without factor mobility, workers and investors in a protected industry are winners and everyone else is a loser. Now imagine a dictator who relies on family members or a tribe or clan to stay in power. He can easily make sure that they are enriched economically for their political support in a seemingly straightforward, apparently legitimate way. He just decides to protect the investments they have made by keeping competition out, knowing that

without factor mobility the return to his cronies will rise while the rest of the economy will not rise as a result. Then he has picked his backers to be economic winners in a subtle, seemingly noncorrupt way. He just protected a particular industry that they happen to be involved in. Thus, politics is used to distort the economy and to ensure political support among essential backers while preventing workers, or investors, from moving to greener pastures. Indeed, it is noteworthy that many small-coalition regimes prohibit people from moving around within their country's borders and likewise prohibit them from leaving the country to seek their fortunes elsewhere. They stymie the freedom of movement inherent in globalization to keep themselves in office and keep their backers happy while harming the rest of their citizenry.

Specific Factor Mobility

Although some dictators try awfully hard to prevent labor or capital mobility (which in their political environments would mean capital and labor flight), still people manage to sneak across borders, bribing officials when necessary to facilitate their escape. It is almost impossible to achieve complete factor immobility or, for that matter, complete mobility. As we saw with farm price supports, politicians may have incentives to limit some mobility. Both perfectly immobile factors and perfectly mobile interindustry factors are the extremes. Trade policy is neither completely driven by labor and capital mobility nor by their immobility. Rather, factor mobility appears to vary from place to place and from time to time, which may help explain the waxing and waning of trade protectionism versus free-trade policies across countries and within countries over time (Hiscox 2002).

Let's see what happens when one factor is perfectly mobile and the other is not. In this setting, we are in the world of the Ricardo-Viner model. For our purposes, the important element of this model is the implication of asymmetric factor mobility for the politics of protectionism and the welfare of poor people. As we see shortly, unlike the Stolper-Samuelson world of complete factor mobility, here we expect demands for protection to be industry specific and supported both by labor and capital in the industry (not class-based as in the Stolper-Samuelson setting).

Under the specific factor approach, one factor of production is specific to a particular industry—that is, it cannot easily be moved to improve its economic return. It can be moved to another industry but only at a cost. At

the same time, the other factor is mobile. For convenience, I assume that labor is perfectly mobile whereas capital is tied to its specific industry. Car factories, for example, are not easily converted into shipyards, but janitors in an automobile plant can easily switch to being janitors in a shipyard.

The implications of tariffs or other choices to reward one industry and not another depend on whether the choice is applied to the specific factor's industry where mobility is limited or to the mobile factor of production. Imagine that each person in an economy possesses only one of these two factors of production. Then, as in the immobile-factor world, those who own the specific factor will form views about tariff protection based on the circumstances in the industry in which they work. If those with the specific factor are at a competitive disadvantage with regard to foreign producers, then they will want protection from imports in their industry although they may readily oppose tariff protection for other industries. Those who possess the mobile factor of production will form views regarding tariff protection based on the circumstances affecting their mobile factor. If this mobile factor is not intensively used in their economy, they will want protection from foreign competition and so oppose globalization policies; if this factor is intensively used in their economy (implying that the factor they own has some comparative advantage for production in their country's economy), then they will prefer free trade instead of tariffs (Hillman 1982; Grossman 1983; Rogowski 1989).

In summary, under free trade, the return on capital (the specific, or immobile, factor in our discussion) is industry specific. In an export-oriented industry, capital does especially well, but in an industry with import competition, capital does especially poorly. Labor (the mobile factor) does well by moving to the industry in which it can command its highest return—which in this case is the export-oriented industry. Any labor that still remains in the industry facing import competition shares the desire of capital in that industry to be protected against the more competitive prices of the imported goods.

If, instead of free trade, there is government protection, naturally, the industries that face import competition and that own the industry-specific factor of production will be more inclined to pressure government to impose a tariff than will export-oriented industries that own the industry-specific factor or any industries that own the mobile factor of production. So, the owners of capital devoted to making gadgets in Richland (or aluminum, cars,

or airplanes or other industries that require vast commitments of hard-to-move capital), will seek government protection and so will their labor force but not the general labor force. Labor in general in this setting does not need protection because it can move to the more productive, export-oriented widget business; those with capital invested in making widgets in Richland (or computer software in India) likewise will not want protection. Under these circumstances, protection helps only immobile capital in the import-competing industry. This industry and its rich investors are winners under government protection, whereas just about everyone else is a loser. Antiglobalization policies in this setting hurt the poor workers of the world in order to protect rich investors. Proglobalization policies benefit the mobile factor of production that so often is labor especially when governments do not act to prohibit emigration or to severely restrict immigration. Those who want to help the poor ought in general to support policies protecting labor mobility; globalization is just such a policy.

SOME EVIDENCE

Before closing, I think it is worthwhile to take one more statistical look at the effects of free trade. We now know from [chapter 10](#) that trade improves income equality, but what specifically does it do for labor and for capital? To evaluate the effect of openness to trade on labor, I assess labor's share of value added in manufacturing as measured by the World Bank. To evaluate the effect of openness to trade on capital, I examine real gross domestic investment (private and public) as a percentage of gross domestic product (GDP) (both in 1985 international prices) using Penn World Tables data. Again, I control for the independent effect of per capita income levels. In doing so, we see evidence for the benefits of freedom of movement for labor and capital.

Not surprisingly, the higher a country's average income level, the smaller the contribution that labor makes to value-added in manufacturing. This is a significant effect that is consistent with our Richland example, in which the wealthier country tends to have more capital-intensive industries. Openness to trade, however, has a huge impact on labor's contribution to the value-added through manufacturing. The significance level is so great that there is virtually no chance this result has arisen by luck. Those countries that offer the most trade protection can anticipate that labor's share of value-added in

manufacturing will be only 41 percent. Those that are most open to trade can anticipate that labor's share will be 59 percent. Clearly, a greater commitment to free trade is beneficial to labor; it gets a bigger piece of the pie.

Equally, a commitment to free trade is beneficial to capital. Higher-income countries have only a marginally better prospect of attracting investment than do poorer countries. The strength of the statistical relationship is weak enough that it would happen in 7 out of every 100 samples. Trade openness, in contrast, so strongly attracts foreign investment that the statistical relationship would happen by chance less than once in 10,000 samples. Those countries least open to trade have, on average, about 12 percent public and private investment as a share of GDP. Those countries most open to trade average investments equal to 18 percent of GDP, or 50 percent more than those closed to trade.

SUMMARY

Trade is a vital and growing area of international interaction. Efforts to promote globalization are supported by many governments around the world and, equally, are opposed by other governments and by well-organized interest groups. Free trade and freedom of movement, whether in currencies, capital investments, or labor are good for consumers, but freedom of movement can harm particular industries or those who own particular factors of production.

Currencies that float, especially when supported by a government that has an independent central bank, tend to assure the greatest mobility of money and the least government interference in market exchanges. Floating currencies and central banks are two valuable pillars of globalization. When governments control currency values or prohibit currency convertibility, there are sore temptations to manipulate the money supply for political ends rather than for good economic effects. Large-coalition, democratic governments almost always depend on independent central banks to shape their monetary policy and to ensure that their money can easily move to its best use.

Globalization differentially affects different sectors of the world's population depending on what individual governments do to promote or inhibit freedom of movement for capital and labor. If both labor and capital are fairly mobile, then over the long run free trade is relatively beneficial for capital in capital-intensive economies (like many wealthy countries) and is

beneficial for labor in labor-intensive economies (like many poor countries). I say over the long run because, given sufficient time, both labor and capital are likely to find ways to move if they want to. In the short run, mobility is more difficult because investments are tied up, workers have family commitments, the government might restrict mobility, and so forth. In the long run, free trade is also relatively disadvantageous for the owners of capital in poor countries and for labor in rich countries. In short, free trade has the long-term prospect of being a great equalizer of income across countries and across owners of labor and owners of capital.

The evidence from our data set of countries over the past fifty years shows us the effects of different trade policies. Countries that restrict trade so that it is a small part of their economic picture tend to provide relatively little value-added to labor and to attract relatively small amounts of investment. Countries that have been open to trade tend to have relatively equal income distributions, to provide a relatively large value-added to labor, and to attract relatively large amounts of investment. Apparently, governments that interfere least in foreign trade and freedom of movement produce the best outcomes, on average, for most of their citizens, rich and poor.

KEY TERMS

asset specificity

capital mobility

currency peg

dollarization

factor mobility

fiscal policy

fixed exchange rate

float

foreign direct investments (FDIs)

Heckscher-Ohlin theorem

labor mobility

monetary policy

Stolper-Samuelson theorem

Answers:

1. b. Labor in poor countries and owners of capital (investors) in rich countries benefit most.
2. b. do what they believe will keep inflation low even if it means increasing unemployment and hurting political leaders
3. b. Globalization is better for democrats than dictators, but globalization often thwarts even democratic leaders' efforts to benefit some constituents at the expense of nonsupporters.

¹ And the US government, through its immigration policies, has sufficiently restricted the opportunities of high-tech Indian graduates of American universities that in many cases they have no choice but to return to India, reflecting the US decision to restrict labor mobility into the United States.

12

Foreign Aid, Poverty, and Revolution



A young Sudanese girl grabs onto one of sixty bags of sorghum for sale donated by USAID and distributed by the World Food Program that found their way to the black market in Akobo, southern Sudan, on April 8, 2010. Two years of failed rain and tribal clashes in this Sudan region bordering Ethiopia have laid the foundations for a humanitarian crisis the UN mission dubs the “hungriest place on earth.” A recent survey found that almost 46 percent of children in the region are malnourished. One possible source of such malnutrition is found in this photo. The food was intended as charitable relief for the poor, but corrupt local officials instead sold it on the black market for personal gain.

OVERVIEW

- Foreign aid does little to help poor people and may actually make them worse off. Foreign aid makes threatened governments less likely to become democratic and more likely to become more autocratic, leading either to a worse dictatorship or the instability brought on by coups d'état.
- The impact of foreign aid is pernicious. It enriches petty dictators and secures them in office. It buys policy concessions that voters in donor countries value enough to pay. It hurts those who feel want the most, the very people most of us presume are the reason foreign economic assistance is given in the first place.
- If donor states' citizens want to change this pattern of behavior they must also change their own demands. They must encourage their government leaders to believe that there are more votes to be had by helping the world's poor than by providing another small benefit at home.

During the past few years, many countries in the Middle East have been plunged in revolutionary upheaval. So hopeful was the world community that these rebellions presaged expanded freedom and democracy that the group of uprisings came collectively to be called the Arab Spring. Foreign aid was and is widely seen by many as an instrument to help promote the democratic urges that seemed to be behind the Arab Spring. This is both strange, given the history of aid, and surprising since foreign aid, as we will see, contributes to entrenching and deepening dictatorship and retarding the emergence of democracy.

For decades, foreign aid has not lived up to its promise. It has failed to lift people out of poverty, ignorance, illness, inequality, and overall misery.¹ While globalization does more to help poor people enter the middle class than antiglobalization protesters believe, foreign aid keeps vastly more people in economic, social, and political misery than many of us like to think. Giving aid, whether it is done by our government or through nongovernmental organizations (NGOs), seems to help the wrong people. It hinders economic and political progress.

There is general agreement about what aid has not done, but so far there

is no consensus on what the solution is or why it has failed to lift people out of poverty or into freedom. This chapter explores foreign aid from the selectorate perspective. It considers foreign aid policy in the context of examining what we should expect if the alleviation of poverty is not the sole or perhaps not even the main reason donors disperse aid. It clarifies why aid is more welcome by petty dictators than by their subjects and why aid hinders democratization rather than promotes it. I summarize the logic and evidence for the contention that donor leaders give aid to recipient leaders in return for policy concessions. Although questionable from a normative perspective, aid-for-policy deals are a strategically rational allocation of resources and effort by recipients and donors, advancing the interests of political elites in each nation. When aid is given for these purposes, the aid is not designed primarily to relieve poverty and reduce misery. It certainly is not designed to promote democracy, rhetoric notwithstanding. As such, we should not be surprised when it fails to fulfill normatively desirable goals. Instead, as we will see, foreign aid perpetuates poverty and promotes the political survival of leaders. This is not perhaps the way we wish things were, but, as I have said before, we cannot change the world if we do not first confront what motivates leaders to make the choices they make.

As we see in this chapter, American support of petty dictators through economic assistance is not some anomaly or some uniquely American flaw but, rather, part of an equilibrium strategy that all democratic leaders around the world follow. It is what they must do if they are to govern on behalf of “We the People.” If these policies offend us, then we should recognize that the fault, as with the use of military intervention (see [chapter 14](#)), lies within our power to change by the simple mechanism of putting other people’s interests ahead of our own. That, as it turns out, is a tough order.

Assumptions Check

1. Four groups of people are affected by foreign aid. Only one of these four groups is likely to be harmed by foreign aid. Which is it?
 - a. donor leaders
 - b. donor constituents
 - c. recipient leaders
 - d. recipient constituents

2. Which of these choices seems to dominate donor constituents' thinking about the use of foreign aid donations by the government?
 - a. Give aid to poor people even if their policy goals are to destroy your way of life.
 - b. Give aid to governments that are willing to protect the way of life you value against the opposition of their own citizens.
3. _____ is more important in aid-giving decisions.
 - a. the needs of the recipients
 - b. the policy preferences of the donor's constituents
4. When revolutionaries manage to overthrow a dictatorial government, they are _____.
 - a. more likely to entrench democratic principles if they receive foreign aid on the promise of democratization
 - b. more likely to entrench democratic principles if aid is withheld pending their meeting democratic performance criteria
5. Foreign aid _____.
 - a. increases the chances that a postrevolutionary government is more democratic
 - b. increases the chances that a postrevolutionary government is more autocratic than its prerevolution predecessor

See end of chapter for answers.

FOREIGN AID: THE PROBLEM

Foreign aid is the contribution of money, goods, or services to other governments or to people or communities in foreign countries; the contributions are given for free, as heavily subsidized loans, or for a price well below the market price. Foreign aid is given by governments and also by NGOs such as the Red Cross, Oxfam, Care, Doctors Without Borders, and countless other charities. I focus here on government-to-government foreign aid and its consequences, but I will illustrate some key arguments with information about aid from multilateral organizations like the World Bank.

With few exceptions, foreign aid programs have failed to alleviate

poverty; promote social, economic, or political equality; or spread freedom or justice. Far more often than might seem proper, foreign aid is given to dictators and demagogues who steal most of it and do precious little to advance the well-being of their own citizens. Why this is so and why foreign aid has not proven effective at promoting economic growth or political freedom is the subject of a lively, sometimes heated debate. The debate is mostly among economists who are influential not only in academic circles but also in shaping foreign aid choices at the World Bank; in NGOs; and in the governments of the world's wealthiest countries, those belonging to the Organization for Economic Cooperation and Development (OECD). The debate centers on two competing explanations for foreign aid's inadequate performance. Before turning to that debate, however, I first touch on the history of a seemingly successful aid program, the Marshall Plan, and its implications for current circumstances to help frame our understanding of what aid does and does not do, and why.

The Marshall Plan: A Model for Foreign Aid?

Probably the single most important and impressive foreign aid effort was launched by the US government after World War II. The Marshall Plan (1947–1951), named after Secretary of State George Marshall, was an enormous economic assistance program. With massive infusions of Marshall Plan money, the United States assumed responsibility to help reestablish the devastated European economies and set Western Europe on its rapid rise to its current-day prosperity and freedom. Of course, this foreign aid effort was aimed at lifting well-educated skilled people from the artificially induced poverty resulting from war back to their prior condition of relative prosperity. We should remember that most Western European countries not only were prosperous but also had experience with democracy before the world war, so the issue was to reestablish competitive electoral politics and efficient economies, not create them for the first time. This difference between the European experience with aid and the experience of much of the rest of the world is often thought to be the key to aid's success in post–World War II Europe and to its poor record since. That explanation, however, is seriously flawed.

It is easy to argue from superficial appearances that Marshall Plan aid *caused* Europe's resurgence and so should serve as a model for rescuing the

people of the world's poorest countries from misery. But, as we all know, correlation is not causation. It is true, for example, that countries with lots of McDonald's restaurants or with many golf courses rarely fight wars with one another, but it is pretty obvious that neither golf nor hamburgers prevent war. On the plus side for the Marshall Plan, it is certainly true that countries that received Marshall Plan money generally did better economically and politically than the rest of the world. For instance, Western European economies grew much more successfully than their Eastern European counterparts in the 1950s and 1960s. The latter, like their patron, the Soviet Union, refused Marshall Plan funds and also grew rather slowly. But why did they refuse the aid, and was it that refusal, or something else, that slowed their growth? It is in the answers to these questions that we are more likely to find out why Western European economies recovered from the war more easily than Eastern European economies. And in the process of discovery, we will also see foreshadowing of the explanation behind aid's uses and abuses.

The Marshall Plan involved much more than Europe's receiving money to rebuild infrastructure and productive capacity. In fact, the plan imposed tremendous economic constraints on its recipients; there was a web of strings attached. No one was given a free ride. Recall from our discussion of the power transition theory in [chapter 5](#) that the United States favored, and still favors, a mostly free-trade regime pursued by market-oriented economies. Recipients of Marshall Plan dollars *had* to agree to pursue free-market policies. This meant that they could not nationalize private industry and still get reconstruction funds. Such a prohibition was, of course, a nonstarter for the centrally planned, socialist economies of Eastern Europe and the Soviet Union. Their governments owned virtually all business and industry operating inside their borders. They had almost no free market at all; in fact, that was the foundation of their economic and political structure. Thus, the terms of the aid money seem designed to prevent pro-Soviet governments from participating in the Marshall Plan.

Participants in the plan also had to agree to balance their budgets, bring inflation under control, and normalize their currency exchange rates. These policies, rather than the aid dollars, are now thought by many economists to be the principal explanation for the high growth rates enjoyed by Marshall Plan participants (Milward 1984; De Long and Eichengreen 1993) and the slow growth in Eastern Europe, where these policies were ignored in favor of an ill-conceived experiment in an alternative economic model.

As further evidence that something other than aid dollars was at work, it is worth noting that much of Europe's transportation infrastructure had been reconstructed *before* Marshall Plan dollars started flowing in and even before the plan was announced (De Long and Eichengreen 1993). Even tougher for the Marshall Plan case is the simple fact that there is not much of a correlation between the amount of money received by the individual countries and the differences in their growth rates (Eichengreen et al. 1992). The Netherlands, for instance, received about 5 percent of its gross national product (GNP) in Marshall Plan aid, while West Germany received less than half that amount; nevertheless, Germany grew between 1948 and 1951 at an annual rate well over 10 percent and the Netherlands grew well under 5 percent per year. So the correlation between growth and aid dollars breaks down when we compare individual countries over time rather than blocs of countries that received and did not receive assistance.

So far we have seen that, although it is true that recipients of the Marshall Plan aid grew rapidly, it is difficult to demonstrate that variations in aid made the difference. Indeed, it may be that the changes in economic policies were at the root of the growth of Western Europe's economies versus the absence of comparable growth in Eastern Europe and elsewhere. These facts are a sobering reminder that correlation is not causation and that increases in aid outlays, however well-intentioned, do not necessarily lead to better economic performance by the recipients. We should perhaps look to improved economic policies, such as those discussed in [chapters 10 and 11](#), rather than increased aid as the solution to world poverty and the conflict it engenders (Burnside and Dollar 2000; Collier and Dollar 2002; Dollar and Levin 2006). Indeed, foreign aid may paradoxically be a serious impediment to improved economic and political policy.

Aid Outside Europe: Not a Pretty Picture

Recognizing that much of the world lacked the **human capital** (people with productive skills and abilities derived from education and good health—that is, skilled educated people) to build successful economies, donor countries such as the United States, Britain, and France oriented some of their aid efforts outside Western Europe toward improving education (rather than basic economic policies). Those efforts failed to promote significant growth, as did donor efforts oriented toward building the infrastructure that is

essential for bringing skilled workers to where they were needed and facilitating the shipment of goods to market. Roads and bridges, schools and factories, ports and airports, and dams and irrigation works were built, and still people in most recipient countries languished in deepening misery, sickness, and poverty. By the 1970s, debate raged over whether the problem with foreign aid resided in the extent to which foreigners (i.e., the donors), ignorant of local conditions, administered programs. It became commonplace (and still is) to argue that responsibility for deciding how best to use funds should be turned over to local officials, who understand the situation on the ground. Not surprisingly, local elites are at the forefront in making this case.

Again, to the great disappointment of aid agencies, turning control of the spending over to the recipient governments (i.e., localizing decision making) seems not to produce improved economic growth, health care, educational attainment, gender equality, or any of the many other noble objectives thought to be behind foreign aid. Although there are exceptions to the generalization that foreign aid has failed, by and large the recipients of foreign aid have not improved the quality of life of their citizens and for many the quality of life has declined.

The Aid Debate

The average result from foreign aid has been so bad that some despair that foreign aid is making things worse rather than better. Whether aid has actually exacerbated poverty and misery or alleviated it here and there, those responsible for formulating aid policy still search for ways to make it work. This is my focus here. Those who are eager to see aid work better are divided into two camps: (1) those who want to increase aid and (2) those who want to improve the choice of aid recipients, giving to local entrepreneurs rather than to governments. Those who apply the strategic perspective to foreign aid policy fall into neither camp and thus form a third camp that straddles both and is critical of the current focus of debate among economists. Increasingly, organizations like the World Bank turn to selectorate logic as a way to understand why their aid programs have not done better and to engineer changes that improve the utilization of their aid donations.

One prominent point of view argues that the trouble with economic assistance programs is that too little is spent on foreign aid to make a difference and that aid amounts to just a drop in the bucket. For instance, US

foreign economic assistance (not counting money spent on the reconstruction of Iraq) only accounts for about 0.2 percent of GNP and less than 1 percent of federal budget outlays. As it happens, despite these small numbers, the United States is the largest aid donor in terms of the total amount of money given. Two-tenths of a percent of the GNP of the United States is a lot of money; it is, depending on what is counted, somewhere between \$13 billion and well over \$20 billion. Still, the United States more often than not is one of the smaller OECD aid donors in terms of percentage of GNP. In percentage terms, Canada is about even with the United States; Britain lags a little behind; and France, with an average outlay of about 0.4 percent of gross domestic product (GDP), about doubles US generosity. Looked at globally, foreign economic assistance has averaged around 0.3 percent of OECD economic product since 1960, and that amount has fallen in the past decade. That's not a record that inspires great pride, but it also fails to tell the whole story. Even the most generous foreign aid donors in percentage terms, such as Denmark and Norway, spend less than 1 percent of their GNP on foreign economic assistance.

TRY THIS

Look up the economic growth rates for ten countries in Africa. Look up how much total foreign aid each of those countries received over the past decade. Are the countries that received the most aid also the ones that are now growing fastest?

With so little aid given, it is clear that one explanation for the failure of foreign aid is how cheap donors have proven to be. For example, the economist Jeffrey Sachs (2005) looks at this record and argues vigorously that more must be given if the rich world hopes to alleviate poverty and the foreign crises likely to arise in the future between the haves and have-nots. This is a view that is easily understood and that calls for an easy solution: just spend more on foreign aid and the world will be a better place. It is a view completely aligned with the UN Millennium Challenge Program, which is intended to increase aid to an average of 0.7 percent of the donor nations' GNPs. That program, in turn, was strongly endorsed and promoted by Presidents George W. Bush and Barack Obama, even when the United States

failed to rise to the giving level that it proposed.²

But things are not this simple. Indeed, one straightforward question clarifies what is wrong with the idea that spending more will solve the problem of world poverty. Put your game theory hat on and ask yourself this question: If donors are not spending enough to alleviate poverty and that is obvious to everyone, then might the explanation be that alleviating poverty is *not* the goal behind foreign aid? The key to answering this question lies in the view that the amount spent on foreign aid is part of an equilibrium strategy, not some unilateral decision made in ignorance by this or that donor country.³ Donors know how much they are giving. They know what impact it has. And they know that aid money has not generally translated into a better quality of life for the world's poorest people. Donors did not greatly vary their inflation-adjusted giving from the late 1960s until the late 1990s. Since then, they have actually cut back in percentage terms. So with aid having very little impact and donors giving small amounts, we must consider the possibility that we are looking in the wrong place to understand what motivates foreign aid. Perhaps donors really are not motivated primarily by a desire to diminish global poverty, and perhaps the governments to which they give are not motivated by that either. Hold that thought while we look at the second side in the aid debate among economists.

The other main perspective in the aid debate looks at the inadequacies of the recipients instead of the cheapness of donors. Craig Burnside and David Dollar (2000), for instance, note that aid helps to reduce poverty only when it is accompanied by good policies within the recipient nation. That, you recall, was the argument for why the Marshall Plan succeeded—it insisted on good economic policies as a condition for receiving assistance. Not only are poor economic policies in recipient nations seen as the culprits but the very intentions of recipient governments have been highlighted as a problem.

Much aid is given on a government-to-government basis. Stephen Knack (2001) contends that such giving encourages corruption by leaders in the recipient nations. Because aid can foster corruption, it undermines its own beneficial potential. William Easterly (2006) and others reinforce this view, focusing on the administrative and bureaucratic inefficiencies in recipient regimes. From their perspective, the central problem with aid programs lies not in how much is given, as argued by Sachs (2005), but, rather, in how it is given. According to this view, recipient governments too often either steal the money or use it ineffectively to be the right target for economic assistance.

An extremely valuable data collection project (AidData) at William and Mary, for instance, shows for the countries they have so far geocoded that World Bank aid projects are concentrated in pro-government, middle and upper-income regions of some African countries rather than in their needier parts. Aid projects it seems are being used to bolster the government rather than alleviate poverty. It is too soon to say at the highly refined level of AidData information whether this pattern is systematic but the evidence to date is distressing and it is consistent with more macro-level analyses of aid spending.

Easterly and others argue that local entrepreneurs rather than governments should be the recipients of aid. It is thought that local entrepreneurs will use the money wisely, building important local successes. Banks making small loans to individual entrepreneurs with ideas for opening a small business, a food stand, a laundry, a child care service, may serve as a useful example.⁴ Unfortunately, this perspective does not consider the political consequences that can be expected if a local entrepreneur proves successful and concentrates enough wealth to represent a potential threat to the local or national government leaders. The idea that small-scale successes can grow into a national means to alleviate poverty and misery sounds wonderful—despite there being few examples of scaling-up to national success—but it overlooks the tremendous incentives that leaders have to prevent the emergence of potential rivals for power. Those who become rich are the prospective pool of just such rivals, and so they are likely to either be co-opted or repressed if they grow successful enough to attract leadership attention.

TRY THIS

Look up the corruption rankings of ten African governments, using Transparency International's corruption index, both for the present year and for ten years ago. Then look up how much total aid each of those ten countries received over the past decade. Did foreign aid help alleviate corruption? Are the recipients of the most aid well ranked or poorly ranked on the corruption index compared to recipients of smaller amounts from a per capita perspective?

A Third Explanation for Aid

There is an alternative explanation for why foreign aid programs fail to solve the problems of poverty and inequality. It is an argument that contends that aid programs are quite successful at doing what they are designed for; it is just that they are not principally about alleviating poverty and they hardly ever are about promoting democracy.

Consider the possibility that neither poverty alleviation nor the promotion of freedom is the sole, or perhaps even the main, reason donors give aid. Let's think about aid more strategically and consider the implications of looking at aid programs as a way to trade dollars for policy concessions. Doing so will allow us to answer four critical questions about aid: (1) Which countries give aid? (2) How much do they give? (3) Which countries get aid? (4) How much do they get? In addressing those questions, we will also be well on the way to seeing how foreign aid gets in the way of democratization. I first summarize a game theoretic model designed to answer these questions and then review the evidence for its central hypotheses. Those interested in a fuller treatment of these questions should see Bueno de Mesquita and Alastair Smith (2007, 2009).

The selectorate-based strategic perspective demonstrates that the answers to the four questions I just posed are all consistent with the notion that aid is not needs based—it is policy based. Indeed, once we look at aid that way we see that even the Marshall Plan was fully consistent with the idea that aid buys policy compliance, and we also see why it involved such a large amount of money. In the case of the Marshall Plan, those who accepted US assistance had to agree to adopt economic policies that matched those that the US

government was interested in promoting. It is easy to forget that right after World War II many in the United States feared that Western European governments would adopt strongly socialist policies that were friendlier to the Soviet Union than they were to the United States. Remember that the Marshall Plan was launched at the outset of the Cold War. It furthered the purpose of aligning Western Europe more with the interests of the US government and its people than with those of the Soviet Union. Acquiring political support from democratic governments, such as existed in Western Europe, comes at a high price; getting the support of nondemocratic governments, if they can live with the policy concessions being sought, typically comes at a much lower price.

Aid-for-policy deals may seem questionable from a normative perspective, but they are a rational allocation of resources and policies by recipients and by donors. In fact, aid-for-policy deals advance the interests of three out of the four groups of people affected by them. They make the constituents of the donor countries a little better off than otherwise would be true. In doing so, they improve modestly the reelection prospects of democratic leaders. They pay autocratic leaders for policy concessions, making them and their coalition of backers better off. To sell policy concessions, it is necessary that the buyer (the donor) believe that the policies it desires from another country would not be followed if aid money were not forthcoming. That means that the policies being sold are not what the people in the targeted, aid-receiving country want, and they are not policies that would be normally followed by the prospective aid recipient. Thus, the people outside the winning coalition in the targeted country are harmed in two ways by their government's acceptance of foreign aid: they get policies they don't like, and their autocratic or dictatorial leaders have extra money with which to buy their own prolonged survival in office.

Giving and Getting Aid

A good starting place for thinking about aid is to remember that small-coalition leaders survive in office primarily by providing their backers with enough private benefits to keep them loyal. Large-coalition leaders survive in office primarily by providing their supporters with enough public goods or, sometimes, club goods to keep them loyal. We can think of public goods broadly as national policies and club goods as policies that benefit large

organized blocs of voters (Schwartz 1987; Smith and Bueno de Mesquita 2012). Most of the time, politicians get the biggest policy bang for the buck by spending money on programs at home, whether those involve building highways or schools or national defense or national parks. Constituents like to see tangible benefits from the tax dollars that their government extracts from them. Sometimes, at the margin, however, the bang for the buck in terms of satisfying domestic constituents can be bigger from doing something in a far-away country than from adding another mile of highway, a public access television station, or another shelter for the homeless. Of course, the opportunity for leaders to please constituents at home by spending abroad is not nearly as prevalent as the opportunity to help their constituents directly at home. That clearly is one reason that foreign aid outlays are so small. Even so, sometimes money spent abroad can buy more value for the dollar, making it the politically smart choice at home.

One aspect that helps make aid programs attractive, at least to some people, is that many foreign aid programs are closely tied to requirements that help constituents at home. The United States provides vast amounts of food aid to drought-stricken countries in Africa, for example, but only if that food is purchased from American farmers and shipped in American vessels. Naturally, we all feel good about spending some money to combat starvation, especially when much of that money is spent on US-produced products that are then shipped to faraway places using US-owned transportation. The late representative Tom Lantos, D-CA, observed this when President Bush suggested decoupling food aid from food produced in the United States as a way to make more food more cheaply available overseas: “It is a mistake of gigantic proportions ... because support for such a program will vanish overnight, overnight” (quoted in Dugger 2007). Why? Because decoupling food aid from American farm production would cut off the domestic benefits to the small number of farmers—potentially in pivotal voting districts—who benefit from aid. When the US Agency for International Development (USAID) railed against Lantos’ view, it failed to consider why aid is such a small amount of money—it benefits relatively few Americans, so politicians can afford to spend little on it.⁵

We see similar patterns in foreign aid given by the Japanese and even the Norwegians, Swedes, and Danes. For instance, Peter Schraeder, Steven Hook, and Bruce Taylor (1998) find that Swedish aid is strongly motivated by pro-socialist ideology and by trade benefits aimed at countries in which

Sweden's impact can be large rather than in response to humanitarian need. Steven Hook and Guang Zhang similarly report that, even after the Japanese government announced that it would give aid for "democratization, human rights, and restraint in military spending" (1998, 1051), its aid giving remained dominated by self-interest, not altruism. We see this message echoed repeatedly—aid donors are looking out for what is good for them more than they are looking at what is good for poor people in poor countries.

When the bang for the buck is greater by spending overseas, we do so. Because the bang for the buck rarely increases through overseas spending, the total amount going to foreign aid is, as we know, the proverbial drop in the bucket. "We the People" prefer to see our tax dollars spent on worthy projects at home such as subsidies for prescription drugs and Medicare, regulating automobile safety standards, protecting small animals from developers encroaching on their environment, and the Superfund to clean up toxic wastes than we do for it to be spent on fighting malaria in African children or digging wells in remote Indian villages. That's why our leaders spend more money on those domestic programs. If they didn't, they probably wouldn't get reelected. Sure, we want to help those poor children dying needlessly from a preventable and treatable disease, but we lose sight of that goal when it starts to hit our own pocketbooks in an obvious way. If this sounds harsh, ask yourself how you would feel about the government cutting back some domestic programs from which you benefit—say, low-interest, deferred-payment tuition loans—to help poorer people in faraway lands. Inevitably, all governments, just like all of us, face a budget constraint, the limit on resources that a government (or a household) can spend. There is a limit to how many good programs can be supported. Tough choices have to be made, and politicians make them with an eye on what will win the most votes or cost the fewest. As long as aid is a small amount, we don't care that the money being spent on it might instead have reduced our own health care costs a little, little, little bit. And so, aid remains a drop in the bucket. We each spend substantially less through taxes on aid each year than we spend on one month's worth of cell phone service for a modest plan.

Now, let's think about who is willing to take our aid. If it were freely given, with no strings attached, pretty much anybody and everybody would get in line to receive aid. There are far too many needy people for us to help all of them, so we have to pick and choose. The strategic perspective tells us that one major factor used by leaders in picking who to help is to think about

whether giving that group aid will strengthen the support of political allies at home. When the home coalition is very large, as in a democracy, then we must pick and choose aid recipients with an eye to what the voters will support. They will support programs that give them a bigger return on the dollar through aid than they would get from the same dollar spent on domestic programs. A valued policy concession (say, allowing American military bases or providing better trade terms for US goods or protecting our ethnic or religious group from oppression elsewhere) could be just the thing to make constituents at home happy about spending some money on aid. Governments willing to cooperate with US interests are much more likely to get aid than those who are hostile to American interests.

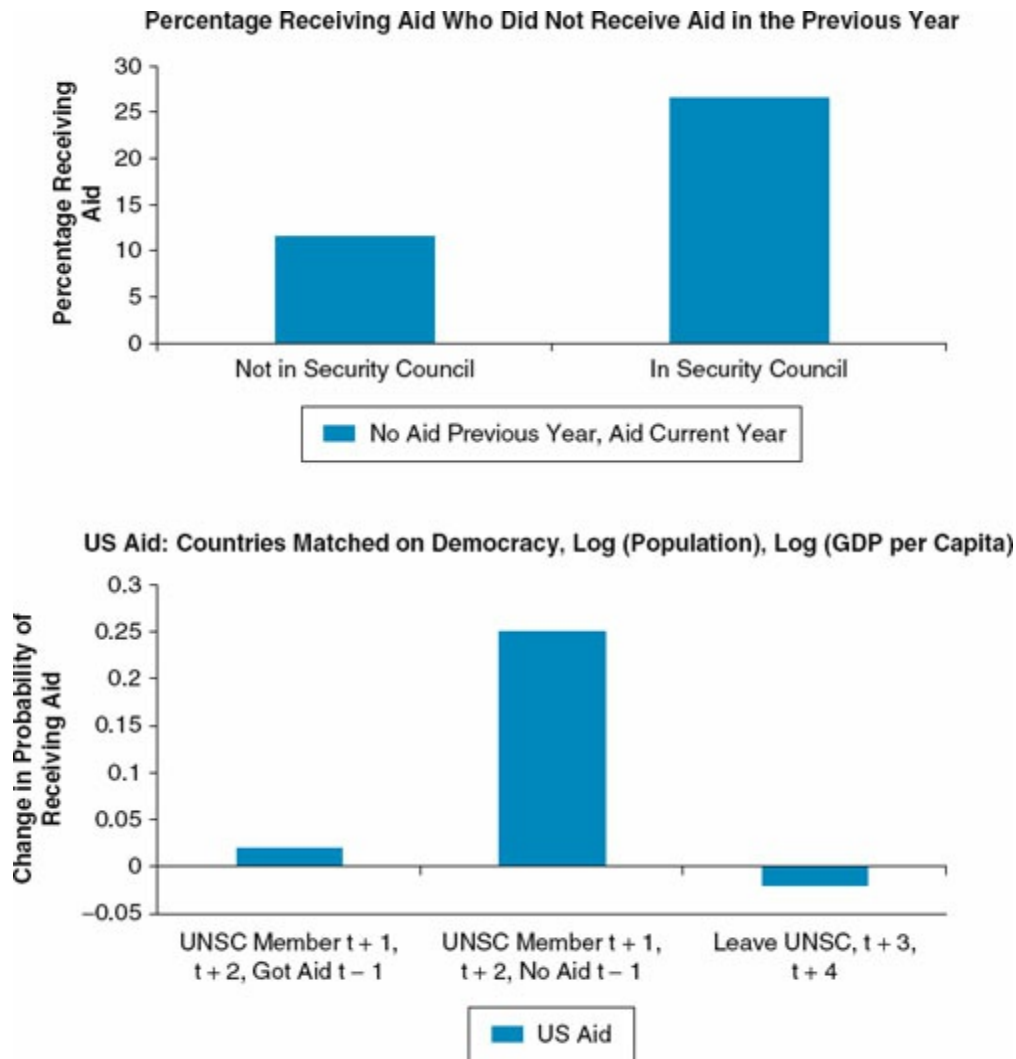
Consider a natural experiment. The UN Security Council (UNSC), as you know, has fifteen members: five permanent and ten rotating. Countries are elected to the rotating slots for two-year terms by their regional group of countries. In much of the world, election to these positions is not strongly influenced by politics or policies, and in some places, notably Africa, it is by a strict rotation system. Some countries, before being elected to the UNSC, did not receive economic aid perhaps because they just didn't have anything to offer that the United States or some other aid donor wanted enough to spend aid money on. But a vote on the UNSC is a valuable thing. What happens when a country is newly elected to the UNSC? [Figure 12.1](#) shows us two important things. First, election to the UNSC more than doubles the odds that a country previously not receiving aid will begin to get aid in general. Second, for the United States, a country with a statistically low probability of getting US aid before it is elected to the UNSC improves its odds of receiving US aid by tenfold once it is elected. After it leaves the UNSC, the aid generally stops flowing. Why? Because it votes more consistently with the wishes of the US government than it did when it was just a member of the General Assembly, where its vote was not worth that much (Bueno de Mesquita and Smith 2010).

As it turns out, the patterns behind [figure 12.1](#) are not peculiar to American aid-giving. The evidence supports that all aid-giving countries are primarily motivated by an interest in getting favorable treatment from aid-recipient governments and that that is why they give the recipients aid.

Who can most easily make policy concessions in exchange for some money? We know the answer from our examination of selectorate politics. Small-coalition leaders need money to keep their jobs. They have to have

enough money on hand to pay off their few essential supporters, typically meaning they have to buy the loyalty of high-ranking military officers and senior bureaucrats and perhaps some family members too. Effective public policy is not their ticket to longevity in office. Not that they have anything against doing what is good for their people if they can, but spending money on good policies at the risk of not paying their cronies enough to keep their loyalty just is not in the cards. That would be the path to their unemployment. So aid donors are likely to be democratic because they want policy concessions, and some of those policy concessions may benefit specific constituents of theirs, helping to provide private goods (such as the overseas sales of Caterpillar tractors or American wheat) as well as public goods. Aid recipients are likely to be autocrats because they want money to help them survive in office.

FIGURE 12.1 A Natural Experiment: Election to the UN Security Council



Now, not all prospective recipients are equally attractive. We have seen one important way in which they differ—their ability to sell policy concessions for money. That is hard for democratic governments to do because their leaders must rely on getting lots of voter support to hold office. Selling out voters by abandoning the policies they want is no way to get reelected. But that does not mean that only autocrats get aid and that democrats never do. Let's probe the logic a bit more.

Suppose A is a leader of a democratic aid donor government. We know A wants to buy policy concessions for her constituents. We also know that those concessions must not cost more than the price that A would pay to get a comparable improvement in her reelection prospects by spending the money at home. So A has to be pretty picky about how much she spends on aid. When can A afford to spend a lot? A can afford to spend a lot when the

policy concession is really highly valued by her voters. When must A spend a lot? A must spend a lot when she really wants the concession, and the policy concession that A seeks is really costly for the prospective aid recipient to give up. When is that? Well, it is hardest for democratic governments to make policy concessions, so they are least likely to be aid recipients because they are too pricey; however, if they have a valuable enough concession to give A, she will be willing to pay a lot for it. So, democrats, although least likely to get aid, are going to get a lot of aid if they get any. Any time A wants a really big, salient, unpopular, and therefore costly policy concession from a prospective aid recipient, A is going to have to pay more than when she wants a concession that is not so hard for the recipient to grant. If a potential aid recipient wants a higher price than the concession is worth to A, then A either won't give that country aid or will bargain with the leaders for a smaller concession that costs less. That is easier to do with small-coalition rulers than with large-coalition leaders. Small-coalition leaders can afford to take a lower price because they have to reward fewer people.

There is still more to deciding whether to give aid or accept aid. If B is a leader of a prospective aid recipient, and B's country has a large national budget (i.e., the aid-recipient country is relatively well off), then B has access to that budget as revenue that can be used to buy the loyalty of his cronies. The richer B is, the smaller the marginal value is of the next dollar spent to keep cronies' loyalty. That is, B's utility for money is concave, which means that more money is always better than less but that the difference in the utility that B attaches to the billionth dollar compared to one dollar less than that is not as large as the utility B attaches to the first dollar or each preceding dollar. This is the idea of diminishing marginal returns we met in [chapter 11](#). So, it is costlier to buy a given policy concession from a revenue-rich leader like B than to buy the same concession from a revenue-poor leader for whom the marginal dollar is worth more.

TABLE 12.1	Foreign Aid: Who Gives, Who Gets, and How Much?
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Criterion	Which Countries Are Most Likely to Give Aid?	Which Countries Are Most Likely to Get Aid?	Which Countries Will Give the Most Aid?	Which Countries Will Get the Most Aid?
Coalition size (democracy, nondemocracy)	Large-coalition democracies	Small-coalition autocracies	Largest- coalition donors	Large-coalition recipients
Issue salience	Those seeking politically salient concessions	Those offering politically salient concessions	Those who value the concessions most, provided the cost does not exceed the value	Those for whom the concessions are most costly to grant, provided the cost does not exceed the value for the donor
Government revenue	Those with high revenue	Those with low revenue	Those with high revenue	Those with high revenue

This is just a quick sketch of what is, in actuality, considerably more complicated logic. Still, the gist of the case should be clear. Democrats are more likely to give aid than are autocrats. Autocrats are more likely to receive aid than are democrats. Democrats who receive aid are likely to get a larger amount of money than are autocrats who get aid. When a big policy concession is granted, more aid is received than when a small concession is granted. From the aid-giver's perspective, it is costlier to buy concessions from richer countries than from poorer countries, so poorer countries are more likely to get aid than are richer countries, but a poor country is likely to get a lesser amount of aid than a rich country if it receives aid at all; the poor country will sell its citizens out for a lower price exactly because the next dollar is worth more to it than it is worth to someone who is richer. [Table 12.1](#) summarizes the essential points.

Notice that in the discussion of who gets aid, who gives aid, how much is given, and how much is received, nothing at all was said about neediness. That is not to say that donors and recipients don't care about the welfare of poor people. Perhaps they do; but they care more about aid as an instrument to help their regime stay in power. If giving to the needy doesn't interfere with that goal, then the needy will be helped. But as [table 12.1](#) reminds us, the poorest nations are not expected to get the largest amounts of aid. Instead, it is the relatively wealthy and relatively democratic governments that are willing to give up a highly valued policy that get the most aid if they get aid at all. This induces important selection effects. If the price of the aid is too high relative to the value of the concession that is looked for by the prospective donor, then, instead of getting lots of aid, the potential recipient

will get nothing or will get much less in exchange for a lesser issue. That is why relatively well off, relatively democratic prospective recipients are less likely to get aid than are poor autocratic states; however, poor autocratic states, although highly likely to receive aid, shouldn't expect to get much. That is what we observe in the world. There are too few aid dollars compared to the vast amount of misery, but, in contrast to arguments by economists such as Sachs, this is not some oversight or error by donors and it is not inherently due to stinginess. The amount of aid given is part of an equilibrium driven by the domestic political needs and wants of citizens in donor countries. Their leaders give as much as their own constituents really want them to give.

In the same way, those who take the second perspective on foreign aid, contending that more aid is not given because too much of the money is stolen by corrupt government officials in the recipient countries, miss an essential bit of aid's logic. Corrupt officials are exactly the people who are most prepared to sell out their population by granting unpopular policy concessions to donors, whether those concessions are security-related, trade-related, or touch on other subjects. It is the small-coalition autocrats who are most likely to get aid because they can sell policy for money, which they use to buy the continued loyalty of their essential domestic allies. So, giving aid to crooked governments is also part of an equilibrium dictated by the interests of recipient leaders and their small coalition of critical supporters, and by the interests of donor leaders and their large coalition of voters. Only the poor souls in recipient countries are harmed by this arrangement, but barring a revolutionary mass movement and overthrowing their government (a topic I turn to shortly), there is nothing they can do to stop their leaders from selling them out.

EVIDENCE FOR THE AID HYPOTHESES

The selectorate view of aid decision making is rather depressing. Of course, hypotheses should neither be accepted nor rejected based on how we feel about them. Only by examining the evidence can we ascertain whether they are consistent with what goes on in the world, so that is what we do next. Remember that to improve outcomes in the world we first have to understand what goes on and why. Those who are unhappy with how foreign aid seems to work will have to think very hard about how it might be changed,

remembering that “We the People” are part of the problem as well as possibly part of the solution. To solve the problem, however, very large numbers of us will have to put the interests of poor people around the world ahead of our own interests, our own comforts, and our own desires for government programs that benefit us. Idealistic calls for more help for the poor won’t carry much weight when those calls are accompanied by greater voter demands for subsidies at home.

Let’s start with the big-picture evidence and then zoom in on some good examples of the theory at work. The big picture can be seen by looking at the pattern of aid giving by all the countries in the OECD—these countries provide the vast majority of foreign aid—and by looking at which countries get the aid and how much they get. Although the members of the OECD are the world’s main foreign aid donors, they don’t each give to everybody. They pick and choose to whom to give aid, just as we do in the United States.

A statistical assessment shows that large-coalition governments are vastly more likely to be donors than small-coalition regimes. They are also vastly more likely to give at least some aid to poor, dictatorial governments than they are to well-off democracies or well-off autocracies. But when it comes to the amounts given, the picture changes in the manner predicted. Among those who get aid, larger-coalition regimes get more money and so do wealthier regimes. Those who have big policy concessions that they are willing to grant—such as trade concessions or national security concessions—get lots more money than those who just don’t have a lot to offer. For instance, countries with neutral foreign policies toward the prospective donor get more than those who already strongly support the donor. Those who are geographically closer to the donor get more than those who are far away. And those who are former colonies—and therefore likely to have more active trade with the donor—get more than those who are not. Life expectancy at birth, one important indicator of need, turns out not to be significantly related either to the likelihood of receiving economic assistance or to the amount received. Per capita income, another indicator of need, likewise fails to explain much about aid receipts.

Looking at specific cases, we see that the big picture is reinforced. Which countries are among the largest US foreign aid recipients? Israel, Egypt, and Pakistan topped the list for many years. Israel, a well-off democracy, still gets considerable support from the United States. In exchange, Israel collaborates closely with the US government on major foreign policy decisions. It has

given up or diminished its own desire for military action against some of its neighbors at the behest of the US government. Egypt got virtually nothing from the United States before it signed the Camp David agreement in 1978, which established peace between Israel and Egypt. From 1980 until 2011, when the Egyptian government led by Hosni Mubarak was overthrown by a popular uprising, Egypt was one of the top aid recipients from the United States. Following the Arab Spring of revolutions, the United States suspended some aid while it waited to see if the new Egyptian government would prove cooperative with US policy wishes. As the new Egyptian government during the interim between the fall of Hosni Mubarak's dictatorship and the rise of whatever else will replace it (probably a coalition of Muslim Brotherhood interests and military interests) adopted less friendly policies toward Israel and the United States, US aid fell.

Pakistan, likewise, used to get little aid from the United States, but that changed dramatically after 9/11—Pakistan became a frontline state in the war against terrorism. It is politically costly for Pakistani leaders to take on Al Qaeda, the Taliban, and even some in Pakistan's own intelligence service (the Inter-Services Intelligence, ISI, which is thought to have planned and helped execute terrorist attacks against American interests). Such policy concessions must come at a high price, and because they are highly valued by the United States, the US government pays the price. However, as the US military became more actively engaged against Al Qaeda on the ground in Pakistan, the political pressures mounted on Pakistan's leaders who constantly must balance the threat to their survival from within and from without. After US special forces killed Osama bin Laden, the head of Al Qaeda, inside Pakistan without first informing the Pakistani leadership—the United States feared they would leak the information to bin Laden—the Pakistani government became less accommodating to US wishes and US aid got pulled back by the Congress.

TRY THIS

Identify the countries that are the ten largest and ten smallest (but not zero) aid recipients of the United States. How do they differ in their governance and in their importance to US strategic or economic interests? How do they differ in neediness (assessed as life expectancy at birth, per capita income, lack of medical care, and other indicators of

quality of life)?

The statistical and case study evidence shows over and over again that OECD donors look much the same as the United States: hardly anyone seems to give primarily on a needs basis, and all give primarily to advance their own political agendas. Strategic calculations about what helps incumbents remain in power seem to tell a big part of the story of who gives and who gets aid. But what about spreading democracy? Does aid at least help with that?

AID, REVOLUTION, AND DEMOCRATIZATION

We know foreign aid is not doing much to alleviate poverty. That is a sad testament to the difference between the lip service that some pay to helping the neediest and the reality that we would rather help ourselves. But maybe aid helps indirectly. Maybe it helps foster more democracy. Although the evidence is mixed at best with regard to growth in prosperity then leading to democracy, it is pretty clear that democracy itself typically fosters growing prosperity. So, if aid programs are tied to democratic reform, as the US Millennium Challenge Grants program is intended to do, then perhaps foreign aid indirectly fosters later economic success as a consequence of giving the wants of the people a greater voice in aid-receiving countries. Alas, that too is not true. In fact, the opposite tends to be true: aid inhibits democratization.

I mentioned earlier that the poor people in aid-receiving countries end up being sold out by their governments. Their leaders are willing to make policy-for-money deals to help them remain in power, and the best deals for them involve giving up policies the donor doesn't like that the recipient's citizens do like. All this mistreatment might eventually motivate people in poor countries to take to the streets, risking what little they have, on the hope and chance that by toppling their government they might get something better. Let's look now at what happens in theory and in reality when leaders face a serious threat of mass revolt.

It is hard to get enough people to take to the streets to threaten a government. After all, revolts are most likely in dictatorships, but dictators are not hesitant to imprison and even kill people who are thought to be disloyal. I do not address here the coordination problem involved in putting enough people on the streets to make for a credible threat. For those

interested in solutions to this problem, there are important studies by Susanne Lohmann (1994) and Ethan Bueno de Mesquita (2010). The easiest way to think about how this happens is that a tipping point is reached, perhaps through the efforts of revolutionary entrepreneurs, in which enough stalwart revolutionaries take the risk to encourage some others to follow suit. Then, seeing more people on the street, still others become more willing to take the risk and so on, cascading until there is a large enough number that the government feels sufficiently at risk that it has to do something.

Just such a cascade was seen in the Middle East in 2010 and 2011. First a single individual, frustrated with his mistreatment by his government, immolated himself in Tunisia. Then, in sympathy, hundreds and then thousands took to the streets. Eventually Tunisia's dictator, who was rumored to be dying, stepped down (and soon after fell into a coma) and the government agreed to real elections. Meanwhile, people in Egypt, Yemen, Bahrain, Syria, Libya, and elsewhere saw the possibility that they could succeed, and so they too took to the streets; and pretty soon the Mubarak government fell in Egypt. Following a bloody war between rebels (backed by the North Atlantic Treaty Organization [NATO]) and the Qaddafi regime in Libya, Qaddafi's dictatorship fell, apparently only to be replaced by fighting local clans and fiefdoms. In Bahrain, force was used successfully to repress revolution, and in Syria, at the time of this writing, the fighting goes on, with thousands killed by Bashar al-Assad's regime. A similar pattern of neighbors rising up in rebellion occurred across Eastern Europe in the late 1980s and early 1990s resulting in the collapse of pro-Soviet governments and the dismantlement of the Soviet Union itself. Most of the former members of that empire became democratic; a few became democratic but have since slid back into more autocratic forms of governance (including Russia); and still others never became democratic, just substituting one form of dictatorship for another. We want to be able to explain those different choices.

In Kenya in December 2007 and in Zimbabwe a few months later, we also saw masses of people taking to the streets to protest what they were sure were stolen elections. These actions seem to have led to shared leadership between former rivals but so far have not produced anything that we could reasonably describe as democracy. We want to understand what the prospects are for real democracy in places such as Kenya and Zimbabwe and how foreign aid might influence those prospects.

Okay, so sometimes people take to the streets; more often they do not.

What happens when they do? Let's address this question in terms of two diametrically opposite ways in which a government can respond: (1) increase democracy or (2) increase dictatorship. But first, let's think strategically about the factors that shape whether mass protests are feasible or even desirable. We know from earlier chapters that governments ruled by a large coalition produce lots of public goods, including a special set of such goods that we refer to as **coordination goods** or **freedom goods**: public goods that facilitate groups of people coming together, exchanging views, and coordinating their actions; these include a free press, free speech, and freedom of assembly just as we talked about in [chapter 9](#). These coordination goods make it much easier for a large number of people to exchange information about how they feel about their government and to express objections to any policies they don't like. This implies two effects of coordination goods that serve as fundamental assumptions in a selectorate-based game theory approach to nation building.

1. The more public goods a society has, especially coordination goods, the less incentive people have to rebel against their government because they are already getting policies that they desire and demand from their government.
2. The more public goods a society has, especially coordination goods, the more likely it is that a rebellion, if launched against the government, will succeed.

Put in terms of expected utility, these two assumptions say that the utility from a rebellion is relatively low in places that already produce lots of coordination goods but that the probability of a successful rebellion, if one were to occur, is relatively high. So the expected utility from a rebellion depends on how steeply the probability of a successful rebellion increases relative to how steeply the incentive to rebel decreases in response to changes in the level of coordination goods being provided.

When people think about rebelling, they have to take several factors into account. Rebellion involves costs, so they have to sort out what it will cost them to take to the streets. They might be killed; they might be imprisoned; they might lose their jobs or homes; or the government might look the other way, treating such antigovernment demonstrations as a routine part of politics. In places such as the United States, where the Constitution

guarantees the right of free assembly, free speech, and a free press and also the right to petition the government to deal with the people's grievances and where rule of law ensures that these rights are generally enforced, demonstrations are routine politics. In the People's Republic of China, antigovernment demonstrations are anything but. Still, after the disastrous earthquake in China in May 2008, many people whose children died when their schools collapsed did protest. Rather than arresting them, the government gave them payments in exchange for their signing agreements not to protest further over the possibility—indeed, the likelihood—that many children died because money that should have been spent on constructing safe school buildings was, instead, stolen by unscrupulous builders and government officials. In the Democratic People's Republic of Korea, or DPRK (North Korea), protests are virtually unheard of, but the people who express even mild disapproval of the government are sent off to prison and many are killed. The same was true under the leadership of Saddam Hussein in Iraq; those who disagreed with his government's policies were imprisoned, tortured, and often murdered. The absence of protests, therefore, cannot be looked at as a sign that people are happy with their government. They might be, but they might instead be deterred from protesting out of fear of the consequences. That is, the repressive nature of the regime with its poor provision of coordination goods makes the probability of successfully rebelling too low. The risk is not worth the long shot of obtaining freedom's rewards. When protests do occur, they can generate a wide range of responses, and these responses (as we see shortly) are influenced by, among other things, how much discretionary money such as foreign aid dollars the government has access to.

In the basic selectorate theory, we have considered so far only a political challenger (domestic or foreign) who wants to depose the incumbent leadership and take over. Now we expand that perspective to include also the possibility that a revolutionary mass movement not only wants to topple the leadership but says it wants to change the fundamental institutions of government. It wants, as all revolutionaries claim, to turn the country into a democracy to help the poor and the downtrodden who have been abused by the current regime and the institutions under which it currently governs. Now, of course, the revolutionaries may say they want democracy, but that claim has to be taken with a grain of salt. Some successful revolutions, for example the American Revolution and the ones in India and South Africa, lead to

democracy, but many, such as the revolutions in Cuba, China, and Libya, do not.

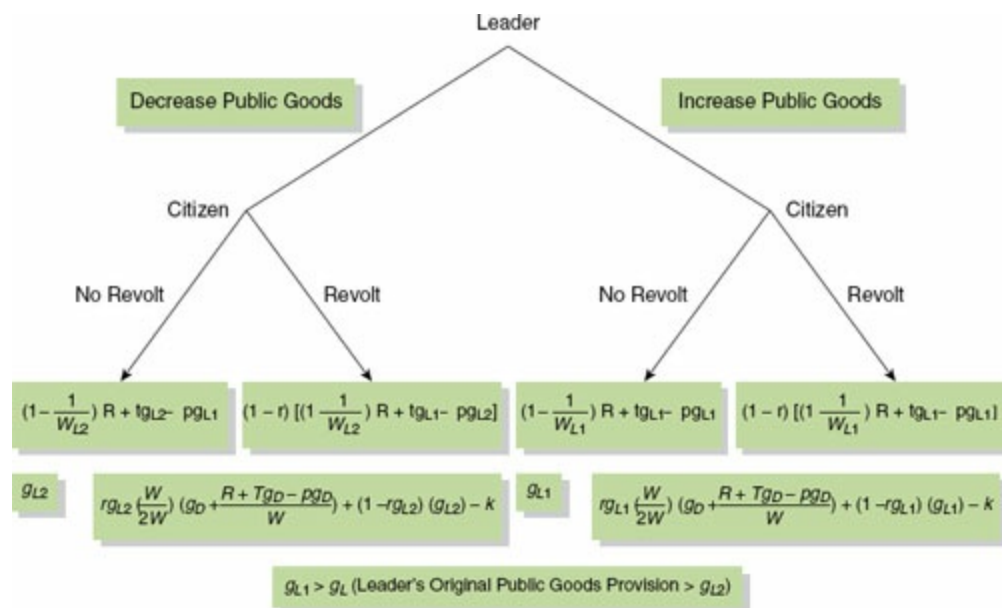
Let's model the threat of rebellion and the options that leaders have to diminish the threat. We start off by thinking about where government revenue comes from. One obvious source of revenue is the income tax and all the other taxes that governments levee on the labor of their citizens. Another source of revenue is money that comes to the government either because it owns and sells such natural resources as oil, diamonds, and gold or because it allows private firms to exploit those resources in exchange for a piece of the action in the form of fees and royalties separate from how much labor is needed to produce the revenue. A third source of income might be money given by foreign governments in the form of, speaking broadly, foreign aid. The latter two sources of revenue (from aid and from exploiting natural resources) share in common that they do not increase or decrease in direct proportion to the amount of labor used to create this revenue, whereas the first form of revenue (taxes on labor) does. That has some important implications for productivity and economic performance. When people work harder, they generate more income that can be taxed by the government. Low taxes on labor encourage people to work harder because they get to keep more of what they produce. Thus, low taxes help to increase productivity and, therefore, output, making the people richer and the government's share of that wealth smaller (although its absolute value can, of course, be quite large). So low taxes combined with productivity-enhancing public-goods provision by the government is one way a government can generate more revenue.

As we know from the discussion of selectorate theory in [chapter 2](#), leaders spend money on public goods (g) and private goods (z), and anything not spent to keep their coalition loyal becomes the discretionary money controlled by the leadership. To keep straight whose public-goods provision we are looking at, let's call the public goods provided by the incumbent leader (called L) g_L and let's call the public goods promised by the revolutionary leader (called D) g_D . Public goods have a unit price of p , and private goods have an implied price of W because coalition members are the ones compensated with private benefits. Keeping in mind that public goods enhance productivity, let's define the revenue derived from taxing labor under each leader as tg_L and Tg_D , respectively, with $t > T$ (i.e., the incumbent leader operates a smaller-coalition regime than that promised by the

revolutionaries, who therefore promise, perhaps insincerely, lower tax rates on labor). The values t and T denote, respectively, the tax rate applied by the incumbent and the tax rate proposed by the would-be revolutionary to be applied to the wealth generated in their country as a consequence of the beneficial impact of any public goods (g) they provide. Assume that $T > 0$ so that total tax revenue (tg as long as the incumbent remains in power and Tg if the revolutionary comes to power and taxes at the rate he or she promised) increases with more public goods provision.⁶ Let's define the (not completely) labor-free sources of revenue (natural resources and foreign aid) as R so that the total government revenue under the incumbent regime equals $R + tg_L$. Then we stipulate that: $R + tg_L \geq pg_L + Wz_L$. That is, $pg_L + Wz_L$ (the total cost of public and private goods) must not exceed the government's revenue ($R + tg_L$). There is, in other words, a budget constraint. (I ignore the possibility of deficit spending to keep this analysis manageable.)⁷ Should the revolutionary come to power and impose the tax rate he or she promised, then the budget constraint is restated as: $R + Tg_D \geq pg_D + Wz_D$.

Figure 12.2 introduces a much-simplified game from that solved by Bueno de Mesquita and Smith (2009). The 2009 model was used, incidentally, in March 2010 to predict that the Mubarak regime would fall by 2011, and it also predicted that Mali would become less democratic by 2012. Mali, formerly a democracy, suffered from a military coup in March 2012 so the tools introduced here have practical applications to anticipate regime instability and policy responses to the threat of revolution. In this simplified game, the incumbent leader, L , faces a credible threat of a citizen rebellion led by the revolutionary, D . The incumbent is looking for a strategy that will encourage citizens not to rebel. Two strategies immediately leap to mind for the incumbent. One approach to neutralizing the threat is to increase how many public goods, especially coordination goods, the leader distributes; the other strategy is the exact opposite—to cut back on public-goods provision, increasing the proportion of private goods that are provided to his or her coalition. The first strategy is equivalent to neutralizing the threat by making people better off; the second strategy is equivalent to deterring rebellion by reducing people's confidence in their prospects of overthrowing the government by making it harder for them to come together and coordinate a mass rebellion.

FIGURE 12.2 Incumbent Strategies to Avoid Rebellion



In the game in [figure 12.2](#), leaders choose to increase or decrease the amount they spend on public goods. Knowing the quantity of public benefits that the government is providing, citizens then choose to revolt or not to revolt. The set of people I am referring to as citizens with the potential to rebel are all people who are not in the current leader's winning coalition. This means that the only benefits those who might rebel currently derive from their government are the public goods it produces. If they rebel, they have a chance of overturning the government and bringing D , the pro-democracy revolutionary leader, to power. If they overturn the incumbent regime, then, in the hardest case (for the incumbent), the revolutionary introduces democracy ($S = 2W$)⁸ and each citizen has a $W/2W$ (i.e., 0.5) chance of getting some private benefits as well as public goods if the revolution succeeds. If the revolution fails, then the citizens continue to derive whatever public goods they were receiving before the revolt. Whether D comes to power or not, each citizen in the revolt pays a price k (which could be very high—loss of life or imprisonment—or a lower cost such as the loss of his or her job or home or friends and social standing) as a consequence of the rebellion.

The leader, L , believing that he faces a credible threat of revolution, chooses to increase or decrease the level of public goods, especially coordination goods, being produced by his government. The choice is

determined by three factors: (1) the rise in the level of public goods makes the citizenry sufficiently happy with their state of affairs that they will not revolt, (2) the cutback in the level of public goods makes the probability of launching a successful revolt sufficiently low that the people will not dare revolt, and (3) which one (1 or 2) leaves the incumbent better off in terms of his overall welfare.

Look at the payoffs in [figure 12.2](#), recalling that the first payoff listed at a terminal node (i.e., the one on top) is the payoff for the player who moves first (the incumbent leader) and the second payoff (listed below the first) is the payoff received by the citizens. Recall also that this model assumes that the probability of a successful revolution increases as the quantity of coordination goods provided by the incumbent increases. An increase in such goods (denoted g_{L1}) improves the odds of a successful revolt but diminishes the incentive of the citizens to revolt, while a decrease in such goods (denoted g_{L2}) makes the odds of a winning revolution smaller but makes the desire of the citizens to revolt greater. It is the balance between these two forces—the odds of success and the value of success—that can be manipulated by the incumbent through the mechanism of allocating fewer or more resources to public goods, especially coordination goods. That means that the citizens' expected results from rebellion are partially controlled by the incumbent regime. The regime provides the level of public goods as a strategically chosen quantity—as an endogenous factor—to minimize the risk of revolution while maximizing its own benefits, subject, of course, to the constraint that the incumbent may be operating with limited information.

We can find out whether citizens choose to revolt by comparing their expected benefits and costs from rebellion to their expected results from living with the status quo. In the game tree, the citizens' payoff from revolting is expressed in terms of a lengthy expected utility statement. This long expression just calculates the revolt's probability of success (rg_{L1} if public goods are increased or rg_{L2} if they are decreased) or failure, each weighted by the costs (k) and benefits (that is, public goods, denoted g_D and private goods) of a rebellion. Recall that originally I identified private goods as equal to a quantity denoted z . Now, to help tease out implications from the model, I solve for the value of z , the private goods, in terms of the budget and public goods. I do this by solving for the maximum that any government can spend, which is, of course, its budget constraint. A little bit of algebraic

manipulation, solving for z , leads to the second benefit term in [figure 12.2](#):

$$R + TG_D \geq pG_D + WZ_D \Rightarrow Z_D = \frac{R + Tg_D - pg_D}{W}$$

In deciding whether to revolt, citizens compare this to the payoff they get from sticking with the incumbent government (g_{L1} or g_{L2}). If revolting is worth more, they revolt; otherwise, they stick with the incumbent regime. Solving for the case where the probability of winning a revolt (r) is large enough to render the payoff from revolting greater than the payoff from doing nothing, we find that it makes sense to revolt if the following occurs:

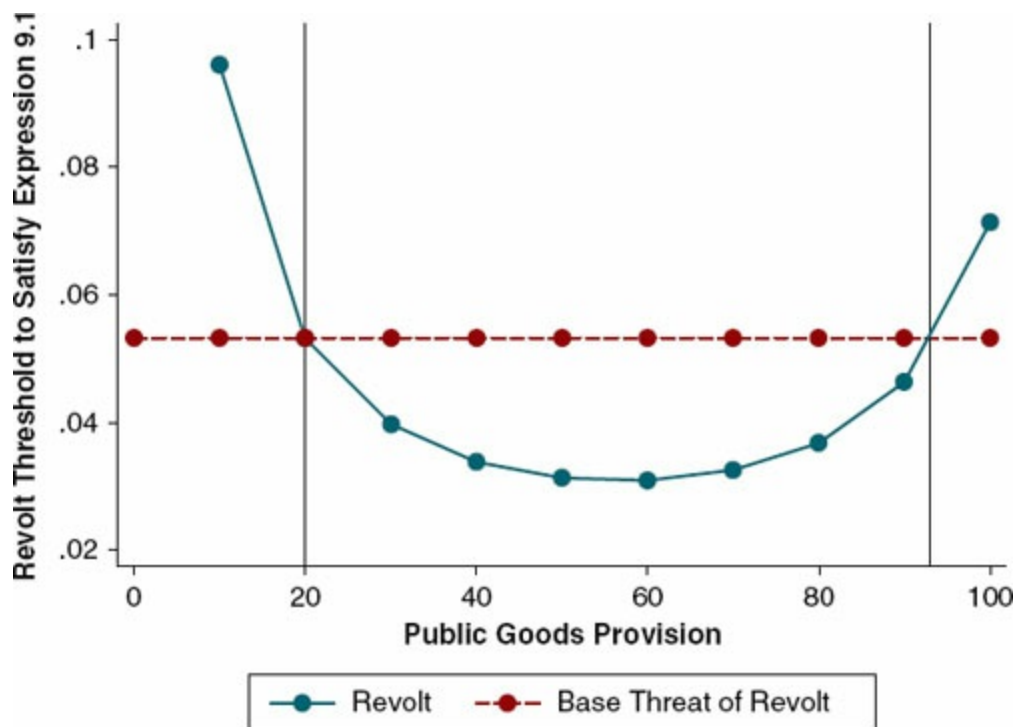
$$r > \frac{2kW}{g_L(R - 2g_LW + Tg_D - Pg_D + g_DW)} \quad (12.1)$$

Let's take a close look at inequality (12.1); note that I have suppressed the subscript that would tell us whether we are looking at the case in which the incumbent increases public goods or decreases them. Expression (12.1) looks complicated, and in fact it is. So, rather than going through the algebra, let's draw a picture based on a numeric example that follows expression (12.1) to see how increasing or decreasing public-goods provision influences the threshold size of r that is required if citizens are to revolt; remember that r designates part of the probability of a successful revolt and that the other part—the amount of public goods provided—influences whether r is higher or lower. The incumbent's objective is to raise the right-hand side of expression (12.1) so as to diminish the odds that r is greater than the rest of the expression. After all, a revolt only happens if r is big enough for revolutionaries to take the gamble. This means L has an incentive to try to make r , depicted on the vertical axis in [figure 12.3](#), larger to avoid revolt. When r is less than or equal to the right-hand side of (12.1), it no longer pays for citizens to revolt; they are better off with the benefits they are getting now than they expect to be by taking to the streets.

[Figure 12.3](#) shows the change in the revolt threshold (the value that r must exceed to justify a mass uprising or revolution) as public goods increase or decrease. I have assumed specific values (listed below the figure), but the shape of the graph is not dependent on these specific values. The shape is, in fact, quite general. In [figure 12.3](#), there are two vertical lines passing through crucial points on the horizontal axis. The first, at twenty, is the status-quo

provision of public goods by the regime threatened with a revolt; the second vertical line is at position ninety-three. The horizontal line that is at about 0.05 on the vertical axis shows the value at which r equals the right-hand side of expression (12.1) given our assumed specific values. If public-goods provision increases or decreases, then the threshold value of r (i.e., the value at which r just exceeds the right-hand side of expression 12.1) changes. If the value goes up, the conditions to justify a revolt become harder to satisfy, so revolt becomes less likely. If the new threshold value decreases because of a change in public-goods provision, then the conditions that must be met for the citizens to revolt become easier to satisfy, so a revolt becomes more likely. If the threat of a revolt rises, putting the incumbent, L , at risk, then leader, L , can change policies to reduce the threat. L can increase the public-goods provision to make revolting less attractive, or L can decrease the public-goods provision to make the risk of revolting too great for citizens to take to the streets.

FIGURE 12.3 To Revolt or Not to Revolt?



$W = 50$, $k = 100$, public goods under $D = 100$, baseline public goods under the existing regime = 20, the vertical axis depicts the range of possible public goods provision by the existing regime (0 to 100), Revenue from natural resources and foreign aid (R) is set at 400,

the tax rate at 70 and the unit price of a public good (p) at 10.

Keeping this logic in mind, let's take a close look at [figure 12.3](#). The curved line in [figure 12.3](#) shows the values of r derived from expression (12.1) under public-goods levels between 0 and 100. Note that the curve rises to the left of the vertical line at twenty as the quantity of public goods offered by the incumbent government decreases. This indicates that by decreasing the public-goods provision to below twenty, the incumbent, L , can make the citizens more reluctant to rebel. Their threshold for gambling on revolt will rise, making it harder and harder for them to satisfy themselves that the risk of revolution is worth it. Remember, the vertical axis is not showing us the probability that a revolt will succeed but rather how high that probability would have to be before citizens would choose to revolt rather than live with the status quo. Notice that the curve rises steeply as public goods fall below twenty. This means that the fewer public goods produced by the government, the more confident citizens will have to be of victory (r must be getting closer and closer to one) before they gamble on revolution. Therefore, the reduction in public goods has made revolt unattractive.

The curve remains above the horizontal line for public goods allocations between zero and twenty and then falls below the status-quo baseline value for r until the quantity of public goods equals ninety-three; then the value rises again above the baseline threshold risk of revolution. That is, between twenty and ninety-three, increasing the quantity of public goods makes revolution even more likely than at the status quo of twenty. The extra public goods help raise the people's confidence that they will have a successful revolution faster than they offset that probability by increasing the value to citizens of the additional benefits they receive. No leader who wants to stay in power will want to provide public goods in that interval between twenty and ninety-three. But above ninety-three, the value of the added public goods so satisfy people that they no longer have a reason to rebel, even though if they did so they would be in good shape to succeed.

As [figure 12.3](#) shows, the incumbent regime can either decrease or increase the public-goods provision to diminish the prospects of a citizen revolt. Which approach is chosen has direct implications for whether the incumbent government democratizes or becomes more autocratic. Remember that the mix or proportion of public goods provided compared to private goods is determined by coalition size. If leader L shifts from providing

twenty units of public goods to offering ninety-three units, then L 's public-goods provision relative to private goods (holding the budget constraint fixed) will become out of whack with the size of his or her winning coalition. Twenty units of public goods was the equilibrium amount of such benefits for a small-coalition regime. Ninety-three units are appropriate for a much larger coalition. In our numeric example, a coalition equal to half the size of the selectorate (i.e., the governance structure promised by D) provides 100 units of public goods. To be in equilibrium with an increase in public benefits from 20 to 93, the incumbent regime must greatly increase its coalition size—it must democratize.

Of course, we also know from [figure 12.3](#) that the incumbent can achieve an equivalent reduction in the threat of revolution by decreasing public goods from their initial level of twenty units to something closer to zero. But if public goods are reduced relative to private rewards (again, holding the budget constraint constant), then once again the regime's institutions will become out of whack with the allocation of resources to public and private goods. One solution to this dilemma is for the incumbent, L , to purge some members of the winning coalition, making the regime more autocratic. This raises the risk of a coup if coalition members get wind of the planned change before it is implemented and becomes a *fait accompli*. If the incumbent cannot pull off the purge before others get wind of it, then another solution is to keep the government as autocratic as before but sacrifice some personal discretionary spending by putting it toward the relative increase in private rewards that are called for in this scenario. That is never the preferred solution by an incumbent, but it is L 's best bet if a purge is likely to trigger a coup.

How do leaders decide whether to solve the threat of revolution by expanding public goods (and their coalition) or contracting public goods? Let's take a look at how revenue from foreign aid and from natural resources (R) influences this choice. [Figure 12.4](#) shows how the leader's welfare changes as the essentially labor-free revenue sources—foreign aid and natural resources—increase as a percentage of national income. Here we see plainly that leaders would rather contract public goods than expand them and that their preference is stronger when non-tax-based sources of revenue increase. This follows from the logic of selectorate theory. Recall that as coalition size shrinks, holding selectorate size constant, as is likely when leaders contract the provision of public goods, the pot of government revenue that is spent at

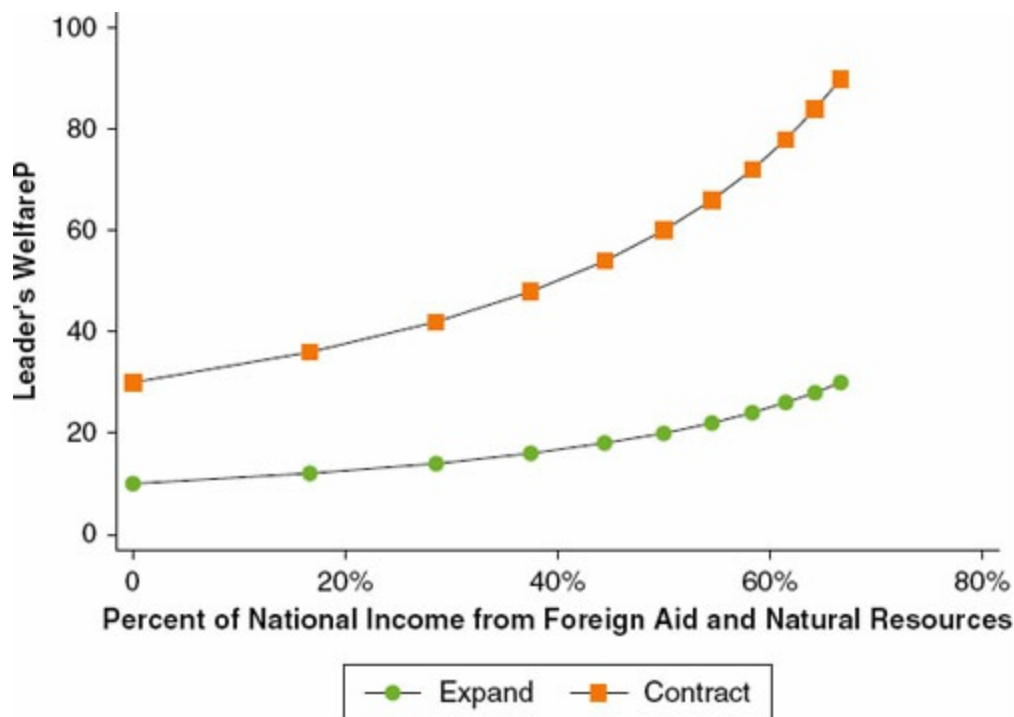
the discretion of the leader increases. That pot of money grows with access to revenue sources such as foreign aid and, if the coalition is made smaller, it also grows because a smaller coalition means a higher tax rate. With regard to foreign aid, it is good to remember also that the odds of getting aid increase as the coalition size decreases, so this source of money is more likely to come the leader's way if he or she contracts public-goods spending.

Note in [figure 12.4](#) that any leader's welfare, represented as his or her discretionary pot of money (i.e., total revenue minus the coalition-driven expenditures on public and private goods), increases as the share of revenue from foreign aid and natural resources increases. Note also that the incumbent's welfare rises faster if he or she contracts public-goods provision instead of expanding it to ward off the threat of revolution. But even though contraction is always more appealing to leaders, we also know that there is the risk of a coup if the leader tries to contract the size of the coalition to match the new mix of fewer public goods to private goods that are being provided. If the risk of a coup is sufficiently large, then expanding the coalition can be the more attractive choice for the incumbent.

Total revenue spent on satisfying coalition members increases as the ratio W/S increases (or the loyalty norm introduced in [chapter 2](#) weakens). In an unconstrained world, leaders will always choose to contract public goods provision and purge members of their coalition, giving themselves greater security in office and greater control over revenue. But the world is constrained. When faced with a revolutionary threat, we learn from [figure 12.3](#) that leaders can secure their hold on power by either expanding or contracting public goods. We see in [figure 12.4](#) that, when the regime's revenue stream has little in the way of natural resource income or foreign aid income, which path is chosen to solve the revolutionary threat is a closer call, more likely to be tipped in favor of expansion to avoid instigating a coup threat. In Egypt, for instance, the Mubarak regime was accustomed to large amounts of US foreign aid. President Obama announced a 50 percent reduction in that aid in 2010 to pay for the Afghan war. With little in natural resource wealth and with aid cut in half, it was easier for people to rebel, for the military to hedge its bets, and for the coalition's size to expand somewhat rather than contract. That is the message from [figure 12.4](#) for regimes threatened with mass uprising (due, in Egypt's case, to dissatisfaction with the regime combined with a very elderly leader who could not guarantee, as the aid cut indicated, the future flow of goodies to his coalition, coupled with

rising unemployment and a tremendous increase in the cost of basic foods like grain for bread) when they fall down on free resources.

FIGURE 12.4 Leader Incentives to Contract Public Goods and Increase Private Goods Allocations as Labor-Free Sources of Revenue Increase



The magnitude of the difference in leader welfare gets larger when leaders have more of these free resources to bail themselves out. The greater benefit that leaders can derive by contracting public goods (and their coalition) when they have a lot of non-labor-based income makes contraction more attractive, increasing the odds that they will become more autocratic. Assad's Syria found itself facing not only a mass uprising but also defections from its military. Assad's government was burdened with heavy debts and declining natural resource revenue. It is likely that his regime would either have fallen relatively quickly or reformed but for the foreign assistance provided by his three closest allies: Russia, Iran and Iraq. Russia provided arms sales and financial assistance. Iran and Iraq together gave Assad about \$5 billion in cash and promises of greatly expanded trade. With that big a cash infusion, Assad was able to buy greater political loyalty among his

winning coalition members and so was able to survive and to pay to try to crush the revolution. Without those revenue sources, coup avoidance looks more important to leaders because their marginal gain from contracting the coalition (and public goods) is not so great compared to expanding both. Thus, democratization is more likely to be the response to a credible revolutionary threat when leaders have little income from natural resources or from foreign aid. Thus, foreign aid can act as a retardant to democratization.

It turns out that the evidence for this model's logic strongly supports its depressing conclusions. Foreign aid and what economists call the natural resource curse stand in the way of democratization. The resource curse arises when a country possesses lots of natural resources that require relatively little labor to convert them into income-producing products (e.g., having lots of revenue from oil or gold or diamonds), and they have governance institutions that are not democratic. For instance, in autocratic regimes that depend on a very small coalition, Bueno de Mesquita and Smith (2009) report that a 10 percent increase in GNP derived from foreign aid or oil revenue is about equivalent to an 8 percent decrease in the few freedoms that people in such a society have. This is a sad finding but one that is consistent with the logic of the strategic perspective. So when a donor government purchases policy compliance through foreign aid from a troubled government facing serious popular unrest, it is helping to quash the movement for greater democracy (which still may be a far cry from what we think of a true democracy) and is indirectly—and probably unwittingly—helping to shore up a petty dictatorship, even helping to make it more dictatorial. This is worth thinking about when we look around the world at troubled regimes—such as those in Zimbabwe, Kenya, and Egypt—that seek more aid and also contend that they are moving toward democracy. Giving such a regime aid is more likely to stifle any progress in governance than it is to help it.

SUMMARY

Consider what we have discovered. Foreign aid does little to help poor people and may actually make them worse off. In addition, foreign aid makes threatened governments less likely to become more democratic and more likely to become more autocratic, leading either to a worse dictatorship or the instability brought on by a series of coups d'état. So when world leaders call on their brethren to engage in debt relief—a form of foreign aid—to offset

the political instability brought on by a state's debt burden, they are decreasing the odds that the beneficiaries (that is, the petty dictators) will use the aid to improve governance and freedom.

The impact of foreign aid is pernicious. It enriches petty dictators and secures them in office. It buys policy concessions that voters in donor countries value enough to pay for them, but it hurts those who are most in need—the very people that most of us presume are the reason foreign economic assistance is given in the first place. If we want to change this pattern of behavior, we will also have to change our own demands and the incentives of foreign leaders who receive aid. We will have to encourage our government to believe that there are more votes to be had by helping the world's poor than by providing another small benefit at home, and we will need to convince aid recipients that their hold on power is better assured by expanding public-goods provision than by contracting it. That would be a noble outcome, but in a world where altruism seems infrequent, it may prove hard to come by.

KEY TERMS

coordination goods or freedom goods

freedom goods

human capital

Answers:

1. d. Recipient constituents are most likely to be harmed because aid helps shore up their bad government's continued hold on power.
2. b. The evidence supports the conclusion that donor constituents prefer to benefit from the recipient government's policy concessions rather than helping the poor if the poor happen to have policy preferences inconsistent with those of the donor constituents.
3. b. The policy preferences of donor recipients are dominant because donor leaders need to keep their core constituents happy and supportive of their own hold on power.

4. b. Revolutionaries are more likely to promote democratization if aid is withheld pending their taking costly, concrete actions to entrench core freedoms and democracy.
5. b. Foreign aid increases the chances that a postrevolutionary government is at least as or more autocratic than its predecessor government.

¹ This chapter borrows substantially from Bueno de Mesquita and Smith (2007, 2009, 2010, 2011).

² It is worth noting, for instance, that since President George W. Bush announced in 2002 that he would give increased foreign aid to countries that use the money to promote good governance and the rule of law, invest in their citizens, and promote economic freedom relatively little additional money has actually been spent by the United States for these purposes. As noted by *The Economist*, “A much heralded shift of American aid money away from supporting governments and towards backing ‘popular empowerment’ has turned out to be small in scale and limited in impact” (December 11, 2003, 44). Congress routinely allocates less money for these good purposes than the president requests.

³ Remember that a *strategy* is a complete plan of action for every contingency that can arise in a game, and an *equilibrium* is the set of player strategies from which no player has a unilateral incentive to defect.

⁴ Realize, however, that micro loans, as they are known, by banks are typically at what most of us would call usurious interest rates. Not-for-profit banks make these loans on average for more than 30 percent in interest, way above even the extraordinary interest rates charged on credit cards in the United States. For-profit banks making micro loans to local, poor, would-be entrepreneurs charge over 50 percent. Obviously, these are rates that cannot be easily paid, and these loans run the risk that they will help launch small mom-and-pop businesses and then crush them with debt.

⁵ Milner and Tingley (2011) do a nice job of showing that the likelihood of a member of Congress’ voting for a foreign aid bill depends on how many of his or her constituents have close ties to recipient governments. Those whose constituents do not expect a personal benefit from aid are more likely to vote against the aid bill.

⁶ For those interested in working through the analysis in a more complete way than the simplified presentation here, I suggest reading Bueno de Mesquita and Smith (2009). We ignore cheating on taxes here to keep the analysis as uncluttered as possible. Higher tax rates will, however, generally also mean more cheating, hiding income or working in the black economy.

⁷ It should be evident that loans, like foreign aid or natural resource revenue, is money governments can obtain without appreciably raising taxes on labor. Loans follow the logic of foreign aid for this analysis.

⁸ Recall from [chapter 2](#) that *S* is the selectorate and *W* is the winning coalition.

13

Can Terrorism Be Rational?



A masked activist of Palestine's ruling Fatah Party raises a poster showing the late Palestinian leader Yasser Arafat and President Mahmoud Abbas during a demonstration supporting President Abbas in the West Bank city of Ramallah in February 2009. Political leaders often utilize the intense convictions of hard-liners to further their ambitions and justify their actions domestically and internationally.

OVERVIEW

- Democracies are likelier to be targets of terrorism than nondemocracies. We look at the logic of terrorism to explore its causes, as well as the difficulties, opportunities, and consequences of efforts to resolve terrorist threats and to foster peace.
- We can think of terrorism as a problem of perceptions and the associated difficulties with credible commitments.

- Perceptions can promote policies that produce unintended consequences.
- The only way to break or diminish the cycle of terrorist violence is through changes in behavior. The risks and costs associated with such changes include one side's reneging on its commitments or, if counterterrorism efforts fail, an increase in violence implemented by the remaining, more extreme terrorists who gain additional resources when more moderate factions compromise with government.

Sadly, it seems that foreign aid often harms the very people we like to think it is intended to help: the poor and oppressed. It is no wonder that surveys show that many poor people, especially in countries receiving foreign aid from the United States, indicate that they really dislike the US government. In 2002, for example, the Pew Charitable Trusts studied values and opinion in forty-two nations. They specifically asked about people's view of the United States. In Pakistan, 69 percent of people reported an extremely unfavorable view of the United States. In Egypt, the figure was 79 percent. In the other forty nations surveyed, only about 11 percent of the respondents expressed this extremely negative view of the United States. Pakistan and Egypt received an average of \$1.6 billion in economic and military aid from the United States in 2002 while the other forty nations averaged only \$97 million in aid. As we know, correlation is not the same as causation but correlation certainly does not rule out causality, especially when, as in [chapter 12](#), we have seen why aid might have this strong negative impact on the views of ordinary people in aid-receiving societies. Indeed, the pattern is borne out in detailed statistical analyses. People in nations receiving lots of US aid dislike the United States more than people in places receiving little or no aid. But then those very people who report a strong dislike of the US government also report that they wish they could live in the United States.

Assumptions Check

1. Does Israel's high quality intelligence agency help or hinder the prospects of a negotiated peace agreement between the Israelis and Palestinians?
2. Can a government reduce the risk of terrorism by negotiating with terrorists?
3. Can a government credibly commit to implement concessions that all terrorists active in its territory will accept?
4. Is it possible for a negotiated and successful deal between a government and some terrorists to have the consequence of increasing terrorist violence against the government?
5. Can the government's probability of defeating hard-line terrorists increase at the same time that the probability of victory by the hard-line terrorists increases?

See end of chapter for answers.

It seems that what people dislike is the idea that foreign aid buttresses their miserable leaders, helping to keep them in power. It also seems that they love the idea of a society, like any democracy, that provides ample public goods even for its newest arrivals. Not everyone living in miserable societies, however, adopts this dual view of democratic aid-giving governments. Others look on the policy preferences and pressures that the West, in particular, exerts on their government and wishes that their own personal policy wishes were not being sold out by their government. A small percentage of such dissatisfied people go to the extreme of engaging in violence aimed against their own government and sometimes aimed against Western democracies. A few of them become terrorists.

[Chapter 12](#) gave us some understanding of the mind-set of would-be revolutionaries and insurrectionists, but it did not give us much insight into those who engage in violence to provoke terror in the hearts and minds of ordinary people in the hope that this terror will translate into changes in government policy. This chapter is concerned with examining the choices of terrorists and counterterrorists to clarify the extent to which terrorism is a rational and all-too-effective strategy.

Resentment of foreign-aid-for-policy deals is one but not the only cause of terrorism. It is true that democracies are especially likely to be aid donors,

and they are also especially likely to be the targets of international, though not strictly homegrown, terrorists. In addition to the anger and resentment caused by aid-for-policy deals in the eyes of terrorists, democracies make attractive targets because their values render them vulnerable to terrorism. Democracies have a strong public-goods orientation, including a strong commitment to the idea of the rule of law and protection of human rights. Due process, in particular, acts to constrain democracies from using tactics similar to those adopted by terrorists. Sometimes, as we all know, democratic governments become so frustrated with the limitations on their scope of retaliatory action against alleged terrorists that they pass laws—like the Patriot Act in the United States following the horrors of 9/11—to improve the ability to strike back. While this often mollifies domestic anger for the time being, inevitably, at least in US history, such extreme actions end up either being repealed by Congress or nullified by the courts. In this chapter, I want to focus on the strategic consequences of terrorism and the responses to it.

One common response—indeed, an almost universal democratic response—to terrorism is to take a tough stance intended to signal terrorists and domestic constituents alike that the government means business in dealing with wanton violence. Democracies signal that they mean business by adopting declaratory policies that they will not negotiate with terrorists. Although such signals are surely intended to deter terrorist threats, they may actually increase the risk of terrorist attacks. We see why this is so in this chapter as we explore a bit about the logic of terrorism.

Let me start by relating a personal experience I had many years ago that shows that terrorism and terrorists are much more complicated matters than we sometimes realize. In the spring of 1970, I interviewed an elderly gentleman in Calcutta. A leading politician in one of India's many political parties, the gentleman was eager to be helpful, responding thoroughly to each of my questions about politics in India.¹ He seemed like a sweet, gentle soul who expressed deep revulsion toward the political and religious violence occurring in India at that time. I formed the opinion that he must have been a follower of Mahatma Gandhi during India's independence movement. From about 1920 to 1947, Gandhi's strategy of nonviolent resistance to British colonial rule moved India successfully to independence. I couldn't have been more wrong.

When asked about his activities before independence, this soft-spoken elderly gentleman revealed that he had served many hard years in a penal

colony operated by the British on the Andaman Islands. His offense had been blowing up a civilian train that was also carrying British troops during World War II. He had been a member of the violent anti-British Indian underground that opposed Gandhi's strategy of nonviolent resistance. He was, in modern parlance, a terrorist or a liberation fighter, depending on which side one is on. How could such a gentle grandfatherly figure have engaged in acts of wanton violence? Upon reflection, I concluded that in his own subtle way he was not that far removed from Mahatma Gandhi. True, Gandhi strictly forbade violent responses by his backers as they protested Britain's occupation and colonization of India. But equally true, Gandhi understood that his protest marches were likely to provoke violent responses by British soldiers and that this violence against unarmed, peaceful demonstrators would offend the moral code and commitment to rule of law and due process among British citizens. Thus, when newspapers back in the United Kingdom reported on clashes and the number of peaceful Indian protestors who were injured or killed, the British public increasingly became outraged and gradually softened its view of the continued occupation of India. Gandhi's strategy of provoking violence worked.

Might terrorists believe that wanton violence can work equally well or even better in advancing their goals? That is a question we might readily ask about the nineteen terrorists who attacked the United States on September 11, 2001, and their backers in Al Qaeda. How could they have justified to themselves the murder of so many innocent people? What beliefs could they have held about the United States or about American citizens that led to such heinous and desperate acts of terror? Gandhi relied on moral outrage among the perpetrators of violence to advance his goals. Al Qaeda surely did not and does not. It seems more inclined to rely on fear among its targets rather than moral outrage. At the same time, it seems to believe, perhaps correctly, that it helps stoke moral outrage on the part of its backers and potential backers, persuading them that it is moral to kill innocents in the name of beliefs that deny that any in the West might be innocent. In this chapter, I offer an answer to these puzzles. The answer may surprise you; it will certainly help you to better understand the pitfalls of adopting a too simple view of international affairs and give you a broader view of terrorism in the contemporary world. The answer rests on the fact that policy declarations often shape perceptions in such a way that the policies themselves encourage the very outcomes they are designed to avoid.

BELIEFS ABOUT TERRORISM

What is a terrorist, and what characteristics does such a person display? If I were writing a treatise on terrorism, I might take up dozens of pages arguing about the definition of the term. Certainly it is a controversial concept. As is frequently observed, one person's terrorist may be another person's freedom fighter. Because I am not writing a treatise on terrorism, I offer a straightforward, fairly intuitive working definition of the concept. By terrorism I mean any act of violence that is undertaken for the purpose of altering a government's political policies or actions and that targets those who do not actually have the personal authority to alter or enforce governmental policy. The attacks on the United States on September 11, 2001, for instance, clearly meet this definition of terrorism. Suicide bombings in crowded markets, in cafés, and on buses meet this definition. Assaults on military installations or government facilities do not.

Terrorism encompasses all violent acts that are motivated by a desire to use injuries to essentially powerless individuals to influence the behavior of powerful others, typically policymakers. An attack on a military target in wartime is not terrorism. Such an attack is aimed at an organization (the military) that could directly change its policy by, for example, surrendering or, in the Al Qaeda context, withdrawing its foreign soldiers from Islamic countries. In contrast, an attack on random citizens on a busy street targets individuals who do not have direct control over policy. The goal of terrorism is to spread fear and anxiety (terror) through a population so that it will, in turn, put pressure on its leaders to change policies in a way favored by terrorists. Since democracies are more dependent on the support of and responsive to pressure from many people and autocracies are not, democracies make particularly attractive terrorist targets. Hamas, for example, wants Israel to fold up its government and return the lands to the Palestinians that, according to Hamas, Israel has occupied since 1948. Because Hamas does not have the military might to take the Israeli army on and hope to win, it chooses instead to attack civilians in the hope that its attacks will create so much fear that Hamas will succeed in getting at least most of what it wants from the Israeli government today in exchange for reduced violence tomorrow.

Many people look at groups like Hamas or Al Qaeda and think that they and all terrorists are crazy, irrational fanatics with no sense of morality or

decency. Because of this outlook, it is common for people to believe that governments should never negotiate with terrorists. Indeed, the governments of many countries, including Britain, Israel, and the United States, have frequently and openly declared that they will never enter into negotiations with terrorists. The belief that terrorists are unusual **types** of people with cruel and unbending inclinations is probably behind this response to terrorist groups. Yet it may be that it is this very attitude that precipitates some (although certainly not all) terrorist acts in the first place. Although such tough declarations may win votes, there is significant evidence that retaliation against terrorists has no long-term deterrent effect (Brophy-Baermann and Conybeare 1994). To see how this might be so, let's consider a simple framework based on perceptions that may help us think about terrorism in a new way.

Suppose there are two different types of people, distinguished by their preference for negotiations or for violence, who become terrorists. We call one type **true believers**; these are the unbending, fanatical sort of people most of us commonly think of when we think about terrorists. Probably Al Qaeda is made up mostly of true believers. We call the other type **reluctant terrorists**; these are people who would prefer to employ traditional means of advancing their goals, such as negotiations and diplomacy. Probably most members of the Palestine Liberation Organization (PLO; or Fatah, its political successor) are this type. Hamas is clearly a mix of both types, a fact we return to later when we consider the difficulty of and advantages from making deals with some, but not all terrorists.

Both true believers and reluctant terrorists must make choices. They can either initiate a terrorist action or try to influence political leaders to change policy through the normal channels of political give and take. True believers prefer to take terrorist actions regardless of how they think the government might respond to their proposals (unless, of course, the government would simply acquiesce to anything they demanded, a possibility so remote that we can ignore it here). They have the attitude of winner take all! In their eyes, their struggle is over an indivisible good: control of the government. Reluctant terrorists, on the other hand, want to use normal political channels to reach a negotiated compromise rather than engage in terrorism. It is their assumed desire to negotiate in normal ways that encourages me to call them "reluctant" terrorists even when they are observed to engage in seemingly wanton violence. They desire compromise but they may be uncertain about

how their efforts at compromise will be received and they are reluctant to believe governmental promises given their prior experiences in trying to come to terms with government.

How might a government respond to an agitator's proposal for political change? This, of course, is a fundamental question that those who are unhappy with government policy must ask themselves before choosing their approach to promoting their own interests. Governments typically take seriously powerful individuals or groups for the obvious reason that powerful adversaries have a lot of leverage with any government. Terrorist organizations just about always start out as very small, weak collections of disaffected people with little influence over government. Such people are usually ignored by governments; if these individuals want to see big changes take place in society, and if they are sufficiently weak, it is possible that government leaders will institute repressive policies to thwart them. Thus, governments can be one of at least two types as well. Government leaders might be the sort that prefers to bargain in good faith with weak political opponents, taking their grievances and wishes into account despite their weakness, or government leaders might be the sort that prefers to ignore or even repress weak adversaries, calculating that they probably cannot really threaten the interests of the leaders in any significant way. Remember pacific doves from [chapter 6](#). They choose violence over negotiations exactly because they fear being exploited by a stronger rival, and they increase their odds of making gains by seizing any first-strike advantage and attacking before their adversary can repress them. The concept of pacific doves matches the notion of reluctant terrorists but not true believers.

With these possibilities in mind, let's consider a third type of government adversary, a type we designate **complacent opponents**. Complacent opponents are individuals or groups that would rather tolerate being taken advantage of by the government than engage in terrorist action. Of course, complacent opponents also would prefer to have the government bargain with them in good faith rather than take advantage of them. [Table 13.1](#) spells out the preference orderings of our three types of government adversaries and our two types of governments.

Consider the problem any government adversary faces. The adversary might choose to ask the government's leaders for some political concession, or the adversary might launch a terrorist act in the hope of forcing the government to notice its plight. If the latter course is chosen, then the

adversary is, by definition, a terrorist. If the former course of action is chosen, then the adversary risks the possibility that the government will choose repression and punishment rather than bargaining in good faith.

No matter how true believers think the government might respond to an offer to negotiate, they prefer to engage in acts of terrorism. For them, a total victory is preferred to any negotiated concessions. Clearly, when a government confronts such an adversary there is no point in trying to negotiate in good faith or in suggesting that such negotiations are a feasible alternative. True believers want everything even if it means getting nothing. They seek an indivisible outcome of the sort we discussed in [chapter 5](#) when we identified the rationalist causes of war. When an issue is truly indivisible (probably a relatively rare phenomenon), the only choice is to give in or to fight. That is how most people see the question of terrorism. Yet, as I have said, truly indivisible issue disputes are infrequent.

As already noted, the posture of non-negotiation is the declared policy of the United States and many other governments toward terrorists. Such opponents are perceived to be unbending and fanatical, which is precisely the case of true believers. Probably the only way to deal with such people is to punish them whenever the opportunity presents itself. This is an objective of the war on terrorism against Al Qaeda. It has led to the execution of numerous senior leaders including Osama bin Laden, and the capture of others, like Khalid Sheikh Mohammad. For true believers, then, perceptions about whether the government is responsive or repressive are simply irrelevant. They want to either get everything they are after or go out in a blaze of glory. The only approach that can be taken in such circumstances is to fight them to the finish.

TABLE 13.1 **Preference Orderings for a Terrorism Game**

Player Type	Player Preference Ordering
Government adversary	
True believer	Terrorist act > good faith negotiations > being repressed
Reluctant terrorist	Good faith negotiations > terrorist act > being repressed

Complacent opponent	Good faith negotiations > being repressed > terrorist act
Government	
Responsive	Good faith negotiations > repression > terrorist target
Repressive	Repression > good faith negotiations > terrorist target

A complacent opponent, regardless of the government's type, prefers negotiation to engaging in terrorist acts. Indeed, there is no circumstance under which a complacent opponent will choose terrorism over trying to bargain with the government. For complacent opponents, then, it is also true that their perceptions of the government's type—responsive or repressive—are irrelevant. Unlike true believers, complacent opponents are almost certainly the vast majority of disgruntled people. They resent what a government is doing to them—like using foreign aid to impose policies they hate—but they are not sufficiently motivated to consider action. They take life as it comes, lumps and all. Of course, this means that governments have no reason to offer concessions to such groups. It is the squeaky wheel that gets the oil!

For reluctant terrorists, the story is entirely different from true believers or complacent individuals. Suppose that reluctant terrorists attach a utility of 1 to negotiations with the government, a utility of 0.40 to engaging in terrorism, and a utility of 0 to submitting to government repression. Reluctant terrorists, just like everyone else, will do what they perceive to be in their best interests. They know that they can obtain an outcome worth 0.40 with certainty by engaging in terrorist acts. If they offer to negotiate, then they might achieve a much better outcome, an outcome worth one, if the government is the fair-minded, responsive type that will agree to redress at least many of the reluctant terrorist's grievances. If the government is the repressive type, however, then these same prospective terrorists will suffer a worse outcome, one worth nothing at all. What reluctant terrorists do depends on their perceptions of the government and the probability that it will choose to repress them. This is the essential feature of the government—its type—that they are uncertain about. Government choices of action provide the often

incomplete information about their type that helps shape the acts of reluctant terrorists (but not the acts of true believers).

If past experiences have taught the reluctant terrorists that the government leaders are fair-minded with a probability of 0.50 ($p = 0.50$) and are repressive with a probability of 0.50 ($1 - p = 0.50$), then the reluctant terrorists are better off trying to negotiate and so will not engage in terrorism. We reach this conclusion by calculating the reluctant terrorists' expected utility for trying to negotiate:

$$EU_{\text{negotiation}} = (0.50)(1) + (0.50)(0) = 0.50$$

That is, for reluctant terrorists, the expected utility for trying to negotiate is equal to the probability the government is the fair-minded, responsive type (0.50) times the value of dealing with a fair-minded government (1) plus the probability that the government is the nasty type (0.50) times the value of being repressed (0). The expected utility for offering to negotiate for the reluctant terrorists, therefore, is 0.50. When we calculate the expected utility for engaging in terrorist acts for the reluctant terrorists, we find it equal to only 0.40. Thus, offering to negotiate is clearly the best choice in this case. Under these circumstances, the reluctant terrorists will not commit terrorist acts and so will never be explicitly identified as terrorists of any sort. We will not be able to tell them apart from complacent types as long as they value trying to negotiate over engaging in terrorist actions because we will never see the behavior—terrorism—that would separate our belief about who they are from our view that they are complacent types.

TRY THIS

Construct a game that reflects the possible moves described here for the three types of government opponents and the two types of governments. You may be surprised at how complicated this seemingly simple problem actually is.

What happens if our probabilities are slightly different? For example, what happens if the reluctant terrorists perceive that the probability the government is repressive is 0.65? By refiguring their expected utility, we find

that terrorism becomes the preferred action:

$$EU_{\text{negotiation}} = (0.35)(1) + (0.65)(0) = 0.35$$

In this instance, reluctant terrorists will commit terrorist acts. Now we will know for sure that the reluctant terrorists are *not* the complacent type. But, significantly, in this case we cannot differentiate between the reluctant terrorists and true believer terrorists because both kinds are engaging in the same activities. That is, the equilibria for true believers and reluctant terrorists in this example are the same. We call such a situation a **pooling equilibrium** in game theoretic terms. Of course, we would like to separate out the reluctant terrorists from true believers because there is only one way to resolve matters with the latter, whereas the former can be persuaded by a more flexible, responsive government to give up their threat of terror, assuming that doing so comes at an acceptable price to the government. Notice also that the government does not have to be all sweetness and cream toward these reluctant terrorists, who, after all, may have done horrendous things in the past. In our numerical example, a 50-50 chance that such people will be repressed is sufficient to get them to give up terror. In fact, the odds that the government is repressive versus being oriented toward compromise could even go up to 59 to 41 without precipitating a terrorist response. So the government could actually be perceived as being more likely to be repressive than conciliatory and still not trigger terrorism. But a 65 percent chance of repression and a 35 percent chance of not being repressed is insufficient for reluctant terrorists to abandon their terrorist tactics. So picking strategically how punishing to be and how forgiving to be can help a government to figure out which terrorists are true believers (they will continue to attack regardless of the odds that the government will not repress them) and which can be pacified without wiping them out while also controlling the expected value of any concessions the government might offer to alleviate grievances.

When a government declares that it will not negotiate with terrorists, how does this affect the perceptions that would-be terrorists have about the best way to deal with that government? The government is sending the following message: “If the opportunity presents itself, we will punish anyone who has engaged in terrorist actions.” This message produces an unanticipated and undesired negative consequence for the government. The reluctant terrorists’ beliefs about the government’s type are probably being influenced by the government’s declaration that it will not negotiate with terrorists. When a

government, especially a democratically elected one, openly declares that it will not negotiate with terrorists and then does negotiate, probably there are audience costs to be paid of the sort we examined in [chapter 6](#). Since elected leaders want to keep their job just like any other type of leader, they will be reluctant to make a no-negotiations declaration unless they intend to carry it out.

If the government's statement is taken as credible and not as cheap talk or bluster, then in the minds of the reluctant terrorists the probability that the government is the repressive type is likely to increase. The more credible the government's declaration, the greater the potential it has to turn reluctant terrorists down the path of violence rather than down the path of negotiation toward a normal political resolution of differences.

Of course, we want to be cautious before advising any government to abandon its declaratory policy against negotiating with terrorists even as we recognize that sometimes such declarations are not credible or are harmful. Many democratic governments have, in actuality, negotiated with terrorist groups even after saying they would not so their declarations are not ironclad. The costs of backing down from such a declaratory policy must be weighed against the costs of not backing down as well as against the benefits that might be gained by resolving a prospective terrorist threat before its costs become too high. Israel, for instance, has declared it does not negotiate with terrorists, and in the past it has labeled the PLO as a terrorist group. Still, they did negotiate with each other and this did lead to the creation of the Palestinian Authority and some efforts by the PLO to limit violence against Israel perpetrated by backers of Hamas, Islamic Jihad and other groups. Through negotiations, each side made significant gains.

There is, of course, a good reason for being cautious about a wholesale abandonment of the anti-negotiation position just as there are reasons to contemplate some flexibility when it comes to negotiating with some terrorist groups. Dropping such an anti-negotiation policy may encourage more groups of people to pretend to be terrorists (of the reluctant type) so that they can extract concessions from the government. My personal belief is that there are not many willing to engage in that extremely risky bluff, so I think it is unlikely many groups will pretend to be terrorists when doing so might get them some concessions but might also get them killed. But we really do not know how responsive people are to the opportunity to extract concessions from the government if the cost in expected repression is reduced, or, in

economic terms, how elastic the demand for acting like a terrorist is as the price drops for being a terrorist.

It would be really helpful if we could estimate how responsive terrorists' beliefs are to a change in a government's declaration about negotiating or not negotiating with terrorists. It turns out that we can solve for the changed belief induced by the government declaration by using Bayes' rule. Bayes' rule allows us to answer this question: What is the probability that a stakeholder—whether a terrorist, a government leader, or whatever types are relevant for the problem at hand—is of a particular type given that it says or does something specific? For example, what is the probability that a government is the repressive type given that it says it will not negotiate with terrorists? To answer this question, we solve the following calculation. Let P stand for probability, R for repressive type, S for the statement against negotiation, and $\sim R$ for the responsive government type that will negotiate rather than repress.² Then,

$$P(R|S) = \frac{P(S|R)P(R)}{P(S|R)P(R) + P(S|\sim R)P(\sim R)}$$

This equation tells us that we need to focus on the conditional probability that the government is repressive (R) given (|) that it makes a declaratory statement that it will not negotiate with terrorists ($P(R|S)$). It turns out that the probability that the government really is this type when it says it is depends also on the probability that a government makes such a statement when it really does not mean it. Let's solve the calculation with some reasonable assumptions and see what we find out.

Suppose that before the government makes a statement, a reluctant terrorist believes the government is the repressive type with probability 0.5 (i.e., $P(R) = 0.5$; this means that $P(\sim R)$, the probability the government is not the repressive type, is also 0.5). This value is the same as in our earlier example in which the reluctant terrorist group will not actually engage in terror but will instead try to persuade the government to grant it concessions. It also reflects the maximum level of uncertainty about the government's type.

Suppose a repressive government always truthfully declares that it will not negotiate with terrorists so that $P(S|R) = 1$. A repressive government wants to make sure that any would-be terrorist knows the government is

tough and, not incidentally, it probably also wants its constituents to know that it is tough too. Suppose further that there is a 50-50 chance that the government will make the statement against negotiation even if it is not the repressive type; that is, $P(S | \sim R) = 0.5$. The responsive type of government would make this declaration against negotiations in the hope of deterring terrorists, as seems to be the motivation behind the US, Israeli, and British declarations. It might also want to persuade its constituents that it is tougher on terrorism than it truly is if it is confronted with the opportunity to negotiate a sound deal. So the signal of an anti-negotiation statement is fully consistent with the interests of a repressive government and might be consistent with the interests of a responsive regime that wants to prevent terrorist acts in the first place.

After the government makes the “we don’t negotiate” statement, the terrorist group uses this information to rethink its view of the government’s type. In game theory-speak, the terrorists update their prior belief, using Bayes’ rule to solve for their **posterior belief**; that is, their new belief after hearing the government’s declaration. Using Bayes’ rule and the information that the government has declared it will not negotiate with terrorists, the terrorists, of whatever type, no longer believes there is just a 0.50 chance that the government is repressive. Solving Bayes’ equation for the **updated belief** after the government’s statement, we discover the following:

$$P(R|S) = \frac{(1)(0.5)}{(1)(0.5) + (0.5)(0.5)} = \frac{0.5}{0.75} = 0.67$$

Whereas before the government made its statement the reluctant terrorist’s beliefs led it to decide not to engage in acts of terror, following the government’s declaration, as we know from our earlier numerical example, the reluctant terrorists now view the risk (and associated costs) of trying to negotiate as too great and so choose terror over negotiating for a peaceful resolution of differences. (Remember their expected utility from terror is 0.40, so if $P(R | S) = 0.67$, trying to negotiate yields them $0.33(1) + 0.67(0) = 0.33$, which of course is less than their utility of 0.40 from terror.)

As we have seen, if the reluctant terrorists believe with sufficient confidence that their government adversary will treat them fairly in negotiations, then they, like the complacent government opponents, will choose to pursue peaceful solutions to their problems. They will not actually

engage in terrorism, and we will never know that they have the potential to commit horrible acts of violence. They will have been selected out of the visible terrorist game. If, however, the reluctant terrorists are not sufficiently confident of the government's intentions, then depending on just how great their belief is that the government is the repressive type, the reluctant terrorists might choose to negotiate or might choose to use terrorist tactics. The more confident the reluctant terrorists are that the government is the repressive type, the more likely they are to commit violent acts. From the government's side, if violent acts occur, the government might infer that the perpetrators are true believers, thereby reinforcing its inclination to convey the message that terrorists will be repressed.

Thus, a cycle of reinforced beliefs takes hold. The government's recalcitrance prompts an increase in the frequency of terrorist acts, which in turn reinforces the government's stand on not negotiating, which in turn prompts further terrorist acts, and so forth. This type of situation arises even though both the government and the reluctant terrorists started out with fair-minded intentions. The government just wanted to deter terrorists, and the reluctant terrorists just wanted to find a way to get some concessions (of course, those concessions may be too great for it to be worth the government's granting them, as we see later). Each has simply perceived incorrectly the true desires of the other.

Our discussion of terrorism highlights several important points related to perceptions. Perceptions can lead people to make choices that in retrospect turn out to be bad. But because we cannot distinguish them from the true intentions of the decision makers (i.e., the types pool in game theoretic terms), we cannot always tell when bad decisions have been made. An act of terrorism might actually be the work of a reluctant terrorist, but we cannot tell from that act alone whether we are dealing with a true believer or a reluctant terrorist (although we can be certain we are not dealing with a complacent opponent). As a consequence of this uncertainty, we might choose an improper response, such as declaring that we will never negotiate when, in fact, being open to negotiations is the very thing that would help us distinguish between true believers and reluctant terrorists. In game theory terms, not declaring a firm policy against negotiation could facilitate the creation of a **separating equilibrium** in which different types of decision makers choose different equilibrium strategies, thereby separating the behavior of true believers from reluctant terrorists. Without finding a way to

separate the behavior of true believers from reluctant terrorists we leave ourselves in a world with less order in it than might have been achieved by testing the extremity of terrorist groups, thereby removing a significant source of uncertainty. There isn't much downside to this since the true believers will do just what they would have done anyway. It is the behavior of reluctant terrorists that will change, and that will make it easier for us to focus our efforts on fighting the true believers and looking for sensible compromises with others.

Perceptions in the form of beliefs, whether mistaken or not, influence behavior in many other ways. It is possible that reluctant terrorists might overestimate the likelihood that the government is fair-minded and so leave themselves open to repression and, indeed, to annihilation. In such cases, we will never know that these people have the potential to be terrorists; we might, in fact, express great sympathy for those individuals or groups so punished by the government. Yet had those individuals or that group perceived the situation more accurately and engaged in terrorism, we would probably have labeled them fanatic extremists and applauded the government's action in punishing them for their deeds. Notice how much our own response depends on the prior beliefs we have formed based on what we have already observed. We have not adequately taken into account what might have happened had the terrorists or the government behaved differently. We are too prone to ignore the elements of equilibrium strategies that are off the equilibrium path.

The cycle of terrorism and harsh government reaction has typified the relations between the Arabs and the Israelis for decades. However, once an Israeli leader was ready to negotiate and once the leader of the PLO was ready to believe that the proposed negotiations were being entered into in good faith, it proved possible to interrupt this cycle (Bueno de Mesquita 1990a). Yet terrorism has not been eliminated in the Middle East—not by a long shot. The sides swing back and forth between negotiation and exchanges of violence with these cycles fluctuating as a function of rises and declines in trust between the competing leaders and, as we see later, because of inherent characteristics of negotiations between governments and terrorists. But just as certainly, some real and sustained progress toward peace was made with the establishment of a semiautonomous Palestinian Authority. This progress was achieved through a reexamination of perceptions and a concomitant realization that alternative explanations of behavior were more consistent

with the facts.

TERRORISM, CREDIBLE COMMITMENTS, AND STRATEGIC DILEMMAS

As the facts change, so, too, do beliefs about the intentions of the rivals, and as these change, so does the level of violence. Indeed, true believers, like many in Hamas or the Islamic Jihad, often escalate violence when negotiations appear to progress between a government and reluctant terrorists. In the larger, multilayer terrorism environment, the true believers fear that their reluctant-terrorist compatriots will make a deal that leaves the hard-liners isolated and weakened. By increasing the violence, they may hope to spur the government to adopt repressive retaliatory measures that scuttle negotiations (and thus give credibility to extremist claims that the government is repressive) (Kydd and Walter 2002). It is also possible that an agreement between the more moderate reluctant terrorists and the government will result in more resources being channeled into the hands of extremists, making it easier for them to engage in violent acts, at least for a while (Bueno de Mesquita 2005a).

The evidence today indicates that Fatah's leader, Mahmoud Abbas, like his predecessor, Yasser Arafat, is not a true believer. One of his problems is to manage relations with the more extremist factions within Hamas, a rival organization with a stronger commitment to destroying Israel. Whether Abbas can effectively deliver counterterrorism assistance and whether the Israelis can deliver sufficient concessions to encourage such counterterrorism remain to be seen. So far, neither side seems to be politically positioned to grant meaningful concessions to the other without risking its own hold on power. In 2011 Abbas, frustrated with the pace of progress—or lack thereof—between Palestine and Israel officially applied for membership in the United Nations. Although the Palestinian leadership knows that the United States will veto their membership in the United Nations, the maneuver puts significant political pressure on the Israeli government to address its own slothful progress in resolving at least the question of expanding Jewish settlements in territory claimed by the Palestinians. Additionally, it reduced pressure from Hamas against the Fatah government outside of Gaza (where Hamas is in control).

Just as Fatah needs to demonstrate its resolve—by applying for UN membership—the Israeli government needs to signal its constituents, which include politically pivotal religious parties, that it will not sell out its key voting blocs. The upshot is that both sides posture for domestic political gains and make little progress toward a lasting peace agreement. Of course, that is no small task. To better understand the difficulties involved in reaching agreements on terms of peace, let us consider the issue of credible commitment in the face of a potential increase in violence accompanying efforts to reach a negotiated peace.³

Thus far, we have considered how reluctant terrorists and true believers might respond to government offers to negotiate. We have indicated that the government might be either repressive or sincere in its desire for a peace based on compromise. Now let us uncover more of the subtleties of making progress toward peace using a model of strategic interplay between a government, a reluctant-terrorist faction (referred to as the moderate), and a hard-liner faction that might, in principle, accept concessions from the government if the concessions were valuable enough (it might or might not be composed of true believers). We might think of the moderates and hard-liners as Fatah and Hamas respectively, or more subtly, as the public-goods oriented faction within Hamas (the reluctant terrorists) who maintain hospitals, orphanages, and schools to improve the lot of poor Palestinians and the hard-line members of Hamas who eschew any compromise with the Israelis. In the model that follows, we will see the following:



Militant fighters of Ezzedeen Al-Qassam training in an open field with live bullets

and RBJs after some rumors in the area warned of a second war in the Gaza strip after a new Israeli government was elected. Ezzedeen Al-Qassam Brigades is the armed branch of the Islamic Resistance Movement (Hamas). Named after Ezzedeen Al-Qassam, martyred in 1935, the Ezzedeen Al-Qassam Brigades continue their struggle to throw out what they see as the Israeli occupation of their land. Their approach to Israel often puts them in conflict with Fatah, the leading, more moderate movement in the Palestinian Authority, as well as with the Israeli government.

1. Governments have little or no incentive to fulfill the promises they make to terrorists unless there are multiple terrorist factions and the government needs help with counterterrorism from some of these factions to combat those with which it will not compromise.
2. It is not possible for governments to reach a negotiated settlement with all terrorists, no matter how generous the governments' offers because of governments' inability to commit themselves to implementing such a deal.
3. Terrorism can be ended by reaching a negotiated compromise with some terrorists that includes their help in wiping out all remaining terrorists through counterterrorism.
4. If the counterterrorism help fails to eliminate all the terrorists who are not part of the deal with the government, then the amount of terrorist violence is likely to increase rather than decrease after the government reaches the agreement with the less extreme terrorist factions.

Let's assume that there is ongoing terrorism by both hard-liners and moderate terrorists, so that a status quo of violence serves as our backdrop. Let us also assume that it is common knowledge who the moderate terrorists are (e.g., Fatah in the Palestinian Authority and the Provisional Irish Republican Army, IRA, in Northern Ireland) and who the hard-liners are (for example, the Islamic Jihad or Hamas in the Palestinian Authority and the Real IRA in Northern Ireland). This is for computational convenience—the game could be solved with uncertainty about the type of each terrorist faction. While you might try solving the more complex game with uncertainty, I stick to the simpler structure whose results are both general and robust.

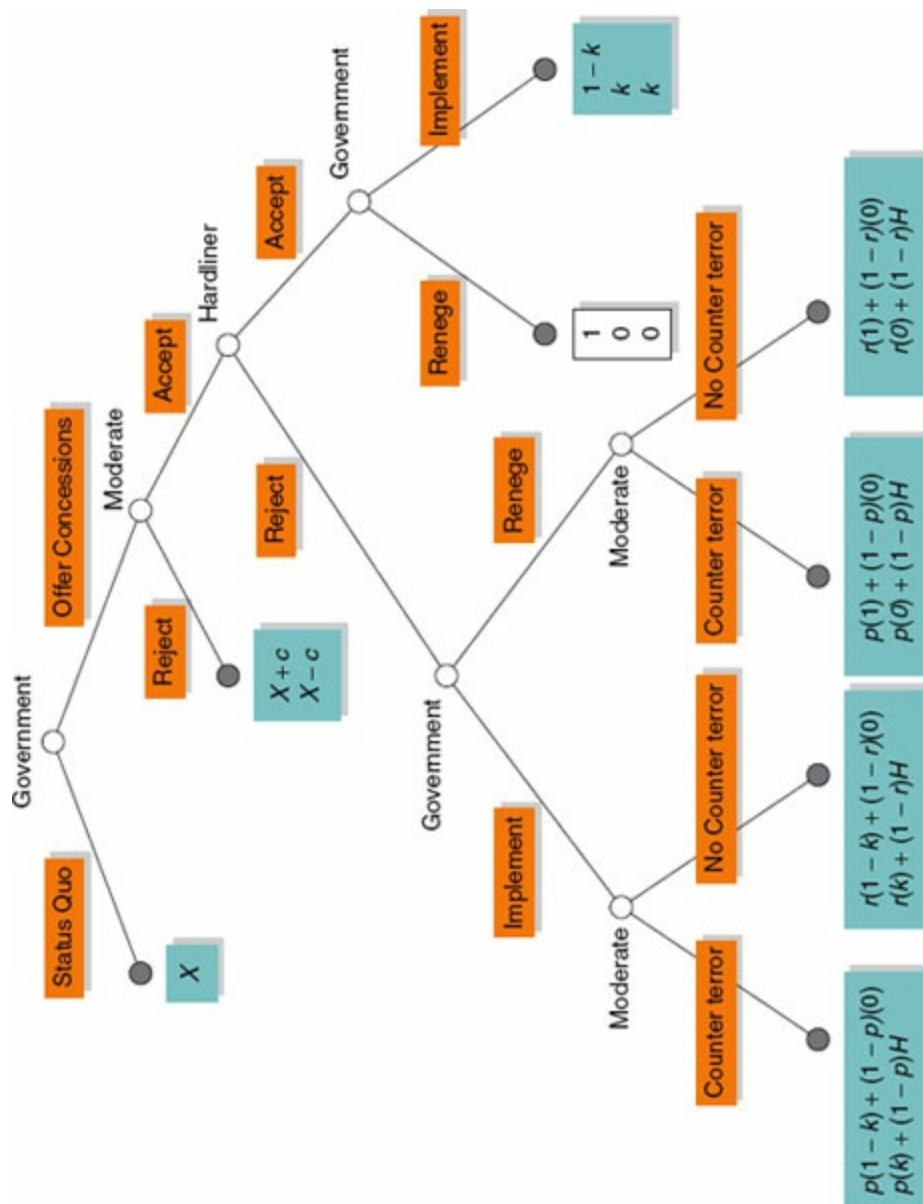
We have three players: (1) the government, (2) a moderate terrorist

faction, and (3) a hard-liner terrorist faction. Figure 13.1 displays the strategic setting in which the government opens negotiations. Because this greatly simplified negotiation game is still pretty complicated, I suggest you write down each of the assumptions on a piece of paper as I present them. That will make it easier for you to go back and think through what is going on in this three-player game. Because this is a fairly realistic representation (in simplified form) of many of the problems and issues in resolving terrorist threats, it will pay to go through this slowly and carefully. You may be surprised by some of the implications.

The government moves first by either offering some level of concessions or continuing to fight the terrorists and thus living with the status quo in which it struggles for an all-out victory over the terrorists. I label such a victory for the government as W . Of course, the terrorists struggle for victory as well. I identify a victory by the moderates as M and victory by the hard-liners as H . That is, W , M , and H are the possible outcomes: a government victory, a moderate terrorists' victory following their preferred level of violence, and a hard-liner terrorists' victory with their preferred level of violence, respectively. To minimize the notation, I set the government's utility for W equal to one and the two terrorist factions' utilities for a government victory equal to zero.

The government, as noted, has the option of living with the status quo (with that outcome having utility X) or of offering a policy concession k to any terrorists. The government's utility for a concession k is $1 - k$, indicating that the less it has to give the more it likes it. For the terrorists, the utility for concession k is k . This offer, if accepted by both terrorist factions, will end all terrorist acts. If both factions agree to accept the offer they disarm (or, equivalently, reveal who and where they are and where their weapons are stashed away). Then the government will either implement the agreed-on concessions (k) or renege on its offer, wiping out the now-exposed and disarmed terrorist factions and gaining an outright victory (W).

FIGURE 13.1 Negotiating with Terrorists: Problems and Prospects



Notes: $X = (1 - q)[(1 - s)(W) + s(H)] + (q)[(1 - s)M + s((qM + sH)/q + S)]$. $(1 - q)(1 - s)$ is the probability that the moderates lose and the hardliners lose or, in other words, the government wins. $(1 - q)(s)$ is the probability the moderates lose and the hard-liners win, implying also that the government loses. $(q)(1 - s)$ is the probability that the moderates win and the hardliners lose (as well as the government) while $(q)(s)$ is the probability that the moderates and hardliners collectively win, defeating the government and splitting their policy differences on the basis of their relative probabilities of winning on their own and the magnitude of their policy demands.

Because the hard-liners are more demanding than the moderate terrorists, I assume that if only one terrorist faction rejects the government's offer, it

will be the hard-liners. If both factions reject it, then the conditions of the status quo persist, except that the government is given credit for offering concessions ($+c$) and the terrorists pay a political price ($-c$) for rejecting the offer. Thus, making an offer that is rejected has a utility of $X + c$ for the government and $X - c$ for the terrorists. We can think of the credit given to the government as meaning that some people who leaned toward supporting the terrorists now support the government. Of course, the political cost to the terrorists is the loss of supporters or resources that results from their rejectionist strategy.

If the winning coalition of hard-liners (designated as $h \in H$ such that hard-liner winning coalition h controls the allocation of H 's resources) rejects and the moderates accept the offer, then at least a portion of the moderates disarm. I designate this group of moderates who accept the deal as $m \in M$, with m being the winning coalition in M . The government must then decide whether it will implement its offer (k) or renege, wiping out the moderates and leaving only the hard-liners as their adversary. Following the government's choice, the moderates either engage in counterterrorism to help the government resolve the ongoing threat from the hard-liners or they renege on the implicit promise that they will provide counterterrorism assistance in exchange for the government's concessions.

The preference orders are as follows:

- For the government: $W > X + c > X > M > H$; equivalently $1 > X + c > X > M > 0$
- For the moderates: $M > H > X > X - c > W$; equivalently $M > H > X > X - c > 0$ ⁴
- For the hard-liners: $H > M > X > X - c > W$; equivalently $H > M > X > X - c > 0$

The strategic problem for the government is to select k (given that the government prefers W to k ; in utility terms, $1 > 1 - k$ ($k > 0$) for the government) such that at least the government and the moderates' winning coalition ($m \in M$; m , a member of M) prefer k to their other choices given the probability of getting k and counterterrorism support under different scenarios and given the risks associated with the continuation of terrorist violence by both the moderates and hard-liners or by just the hard-liners.

I assume that if the government offers concessions and the moderates

implement a policy of counterterrorism, then the government's probability of defeating the hard-liners is p ; however, if the moderates do not offer counterterrorism support, then the probability of defeating the hard-liners is r , where $p > r$ (i.e., the government benefits from the counterterrorism efforts by the moderates).

The Government's Credibility Problem

The first thing we notice is that the government has a credibility problem that makes it impossible for the interaction to end with the government and both groups of terrorists coming to a negotiated agreement. Even if the government makes an offer k that is exceptionally attractive to the terrorists, the hard-liners will reject it for sure because they realize that once they disarm in exchange for the government's promised concessions, the government has every incentive to renege. For the government, winning outright (W) is always better than granting concessions to terrorists (k). Therefore, once all the terrorists accept the government's offer and disarm, they have no way to punish the government for cheating on its promise and so the government, being rationally self-interested, will seize the opportunity to win unopposed. This is probably why the Provisional IRA in Northern Ireland for years proved reluctant to lay down all of its arms (or decommission, in the parlance of negotiations in Northern Ireland) and so too did the Protestant paramilitary groups in that country. Without arms, they have no recourse if the government does not deliver on its promises. So, if a compromise exists that is acceptable to everyone, there is no possibility of its being implemented in an environment that looks like the one depicted in [figure 13.1](#). This implies that, in a situation with multiple terrorist factions, all terrorism cannot be ended by negotiation. Shortly, we explore an even more troubling implication—that achieving an implemented negotiated deal to end terrorism requires the existence of hard-liners who can only be wiped out if more moderate terrorists agree to help improve the government's counterterrorism efforts. So, without hard-liners as foils, resolving terrorist disputes through negotiation may be quite difficult indeed.

Given the observation that no deal will be implemented that is acceptable to all terrorists, we might mistakenly leap to the conclusion that no deal can be struck and carried out at all. So far, we know only that the hard-liners will reject any deal that is offered, appearing to be true believers even though they

might not be; they just might be convinced that the government is not really committed to the proposed deal. Still, it is possible that the moderates winning coalition m will accept an offer that the hard-liners reject. Let us now consider what the moderates might do following a government offer that is rejected by the hard-liners. Remember that we continue to assume that accepting the government's offer means disarming.

Solving the Credible Commitment Problem

The government is hoping for counterterrorism help from the moderates against the hard-liners. But before the financial backers and combatant members of the moderate faction spend resources on counterterrorism efforts, they will wait to see whether the government implements its promised concessions. If the government reneges, then the moderates will always prefer to withhold any counterterrorism help; that is, for the moderates, $rW + (1 - r)H > pW + (1 - p)H$ remembering that for moderates W 's utility is 0. We can see straightforwardly that this inequality must hold given the assumption that $p > r$. If the government reneges on its offered concessions, the moderates' expected utility for providing counterterrorism support is $(1 - p)H$, and their expected utility for not providing counterterrorism support is $(1 - r)H$. Since by assumption counterterrorist help is valuable, $p > r$, so therefore $1 - p < 1 - r$. Thus, under the conditions assumed here, moderate terrorists will never provide counter-terrorism help to a government that has not granted them tangible, implemented concessions in exchange, especially concessions that cannot easily be withdrawn later on. We can see then that the existence of the hardliners creates an incentive for the government to offer attractive concessions and to carry them out. Moderates, understanding this incentive, can then "game" the system, encouraging the creation of a hard-line faction to improve their own bargaining leverage. Let's see how that works.

What happens if the government, needing counterterrorism help, implements its promised concessions? Then the moderate terrorists must decide whether or not to provide counterterrorism assistance by comparing the following expected utilities, where the left-hand side is the utility the moderates expect to derive from assisting the government's counterterrorism efforts and the right-hand side is their expected utility if they renege on their promise to help the government with counterterrorism: $pk + (1 - p)H > rk +$

$(1 - r)H$. A bit of algebraic rearrangement shows us that this is equivalent to the statement that $(p - r)k > (p - r)H$, which is equivalent to the simple statement that for the moderates $k > H$, or the offered (and implemented) government concessions are better for the moderates than the policy objective of the hard-liners. This calculation helps the government begin to figure out just how much or how little it must offer and how to dole out the concessions over time (which I ignore here) to make a deal with the moderate terrorists. Remember, for the government the utility of victory $(W) = 1$ and the utility of concessions k is $1 - k$ ($0 < k < 1$), so we have to figure out what magnitude of concessions is worthwhile for the government to offer and implement and for the moderates to accept and provide counterterrorism assistance. By solving for the right level of concessions, the government can ensure that its offer will be accepted and the moderate terrorists can ensure that the government will implement the agreed-on concessions, thereby solving the commitment problem that prevented its making a deal with the hard-liners.

If the government has made the calculations we just made, then it knows that the moderates will provide counterterrorism support if the government carries out its promised deal and that the moderates will not provide counterterrorism help if the government reneges. That is, the government must choose between implementing its offer and getting $pk + (1 - p)H$ or reneging and getting $rW + (1 - r)H$. The government faces a trade-off between a better chance (p) of getting an acceptable outcome (concessions k) versus a poorer chance (r) of getting a better outcome (outright victory, W). When we rearrange the algebra to find the value of k that will lead the government to implement its promised concessions, we find that, if the following inequality holds, the government benefits from carrying out the

$$\frac{p-r}{p} > k$$

concessions it offers to the moderates: $\frac{p-r}{p}$; that is, the marginal gain in the odds of defeating the hardliners increases by more than the cost of the concessions the government grants to the moderate terrorists.

Since $p > r$ and $r > 0$, the ratio $(p - r)/p$ is less than 1, and so we know that there is a value of $k < W$ that will lead the government to implement its concessions and gain the benefits of counterterrorism support. Because the government's utility (k) for concessions decreases as the concessions become more generous, the government wants to make the smallest concession it can (so that the utility k is as large as possible) that will ensure valuable help with counterterrorism from the moderate terrorists. So, the smaller $p - r$ is the less

value there is to the counterterrorism assistance and the harder it is for an adequate concession to be offered.

The moderates, for whom the utility of concessions (k) increases as the concessions become more generous, want to extract the largest concession they can that is consistent with the government carrying out its promise. Thus, for the government, finding the right concession to offer involves a delicate balance between not giving too much and getting enough counterterrorism in exchange, and not giving too little and getting nothing. For the moderates, emphasizing the value of the information they can provide against the hardliners strengthens the prospects of getting bigger concessions.

There always is a risk that the government will renege at this stage of the negotiations. However, because we have assumed all information is common knowledge, the moderates will not accept the offer unless the government is expected to implement its proposed compromise because it is in the government's interest to do so. Under all but rather odd circumstances, the moderates will not accept the government's proposal (which includes their help with the government's counterterrorism effort) unless the government will implement it. In fact, the moderates will accept the government's concessions provided that their expected utility from the implemented proposal (including their providing counterterrorism assistance) is superior to what they get by rejecting the offer ($X - c$) when it is initially made. As long as the offer meets the condition

$$k \geq \frac{X - c - (1 - p)H}{p},$$

the moderates will take it.

We see, then, that there are always possible concessions that do not cost the government so much that it will not grant them and yet are large enough that the moderates will provide counterterrorism support to get them.⁵ Naturally, uncertainty about the value of counterterrorism or about the true worth of concessions can diminish the chances of an agreement, but at least we now see that if there is good enough information out there an agreement can be reached.

I began this discussion by claiming that the model in [figure 13.1](#) allows us to logically derive four important empirical hypotheses. The first three have now been shown to follow from the model. That is, we have seen the

following:

1. Governments have little or no incentive to fulfill the promises they make to terrorists unless there are multiple terrorist factions and the government needs help with counterterrorism support from some of these factions to combat those with which it does not compromise. Once all terrorists are disarmed, the government prefers to maintain its policies rather than grant concessions.
2. It is not possible for governments to reach a negotiated settlement with all terrorists, no matter how generous the governments' offers because of governments' inability to commit themselves to implementing such a deal. If all terrorists agree to the government's terms and lay down their arms, they no longer have a credible threat to use violence if the government does not carry out its promises, which leads the government to renege on its promises and eliminate the disarmed terrorists.
3. Terrorism can be ended by reaching a negotiated compromise with some terrorists that includes their help in wiping out all the remaining terrorists through counterterrorism. Such a deal is possible provided that the government's concessions are large enough to improve the welfare of the moderate terrorists relative to their welfare from continuing with violence and provided that the concessions are not so large that the government prefers to renege rather than carry them out. That is the precise calculation of the size of the concessions that we worked out.

Now, we examine the fourth implication.

WHY VIOLENCE MIGHT INCREASE AFTER SUCCESSFUL NEGOTIATIONS

Our fourth claim is that if counterterrorism fails to wipe out the hard-liners, then an agreement between the government and moderate terrorists will result in an increase in violence. To demonstrate this, let me construct a visual example of what can happen to the level of violence in a society after the moderate terrorist faction and the government's leaders reach an agreement. [Figure 13.2a](#) displays the support for, or resources behind, different policies, including their associated levels of violence, before a compromise deal is struck with the moderate terrorists. [Figure 13.2b](#) shows the resource

distribution following a deal between the government and moderate faction of terrorists. In drawing these figures, I make the assumption that the more resources that hard-line terrorists control, the more violence they engage in.

Before the deal is struck with the moderate terrorist faction, people who prefer the government's zero-tolerance approach to terrorist violence provide resources to the government (probably through taxes) to advance its zero-tolerance objective. People who prefer the moderates' use of violence to help resolve their grievances over the zero-tolerance advocated by government coupled with no alleviation of grievances and the higher levels of violence advocated by hard-liners make resources available to the moderate terrorists to aid their efforts. That is, the backers of the moderate faction give them money through donations, illegal business opportunities, sweat equity, and so forth, to help pay for the terrorism in which the moderates engage. Many Americans, for instance, knowingly or not, gave money to the IRA for many years—money that was used to support terrorist bombings and other such activities. All people who prefer the hard-liner terrorist faction's policy that favors high levels of terrorist violence to those of the government and moderate terrorist faction back the hard-liners. Some charities, for instance, have been found to be contributing, knowingly or not, to support Al Qaeda's efforts to promote a global jihad, or holy war.

FIGURE 13.2a National Resources Supporting Alternative Antigovernment Policies before a Deal Is Struck

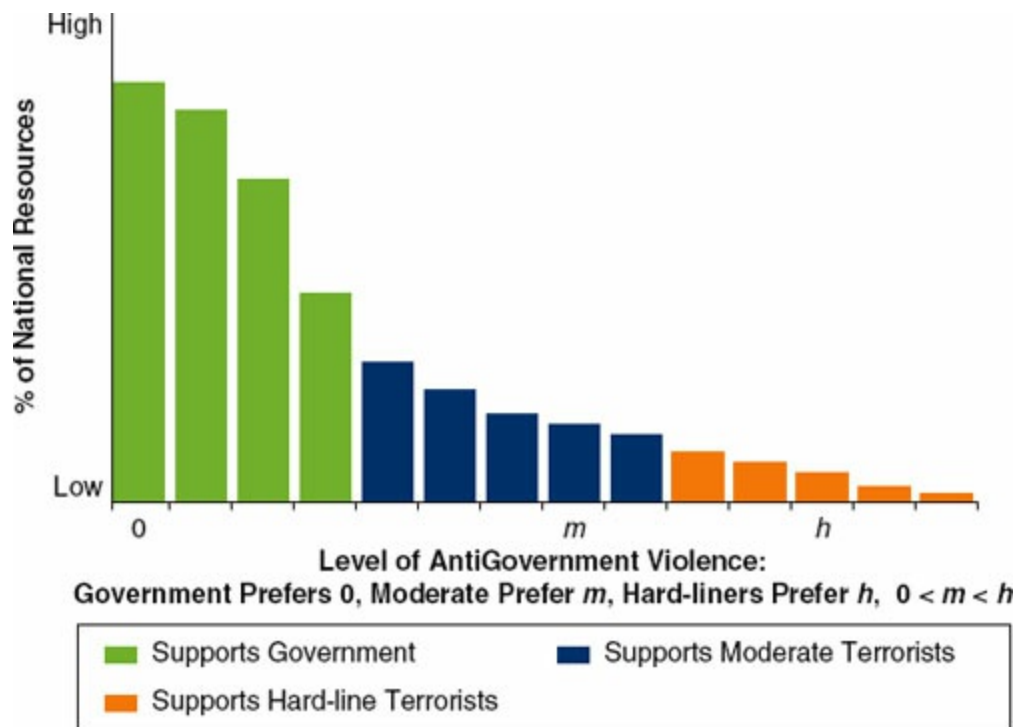
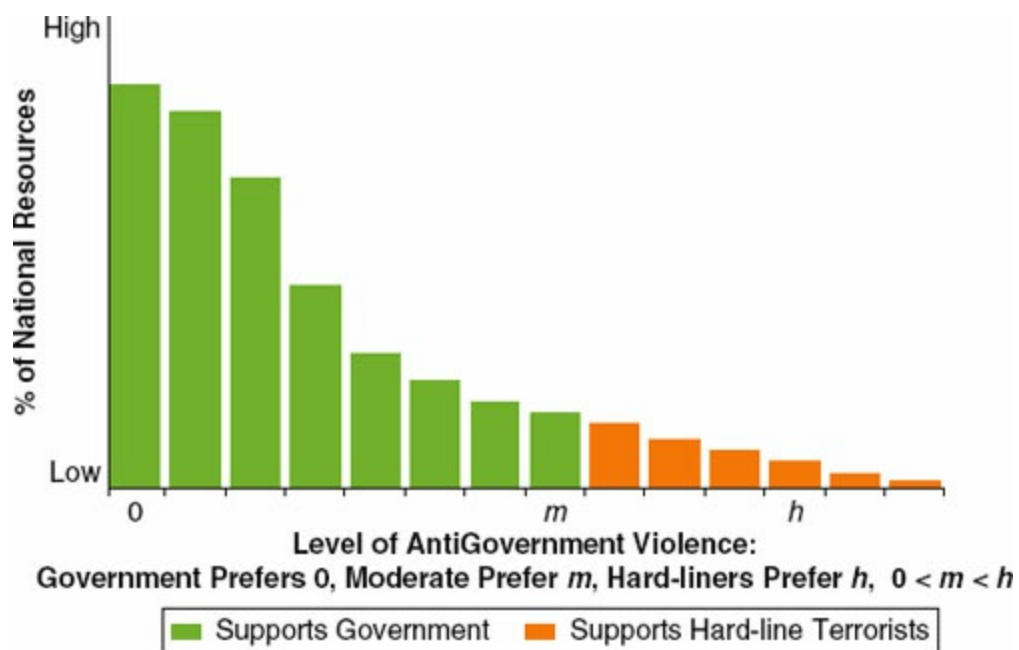


FIGURE 13.2b National Resources Supporting Alternative Antigovernment Policies after a Deal Is Struck



TRY THIS

The game in [figure 13.1](#) assumes three players. What if the government also has a legitimate political opposition? Add this fourth player and see what the implications are if the legitimate opposition is more demanding than the incumbent government (i.e., for the opposition party some outcome $Z > W$) or less demanding ($W > Z > X + c$). Does this change the sort of concessions the government can make or that the moderate terrorists can accept? How do the findings relate to Schultz's argument discussed in [Chapter 6](#)?

[Figure 13.2a](#) shows the alignment of national resources (i.e., the resources of the people in the society) behind the government, moderate terrorists, and hard-liners before the government makes a deal with the moderates. The positions of the three players are denoted in terms of the policy preferences, including level of violence, favored by the winning coalition in each (0 violence for the government, moderates at the position favored by m members of M , and hardliners at the position favored by h members of H). The bars show the relative resources in the society that align with each player's position on violence, a reflection of how intensely grievances are felt to be legitimate. Any resources controlled by people whose attitude toward violence is closer to the government's view than to the moderate terrorists' back the government. That is, anyone who is less than or exactly halfway between 0 and m (the moderate terrorists' preferred level of violence) on the horizontal axis makes resources available to the government to fight terrorism. Those whose tolerance for violence is closer to the moderates' position than the position of the government or hard-liners (h) make their resources available to the moderates. People whose view of violence and intensity of grievance is closer on the horizontal axis to the hard-liner's position (h) give support to them.

[Figure 13.2b](#) shows the alignment of national resources behind the government and in support of the hard-liners after the government makes a deal with the moderates. Remember that the deal, valued at k , is chosen by the government to minimize the concessions they make while ensuring that the moderates will accept it. After the deal is struck, everyone who finds the deal acceptable ($m \in M$) takes it. Because the deal is chosen to induce the

moderate terrorist faction to just barely accept it, any supporters of the moderate terrorist faction who fall between the moderate's stance (m) and the hard-liner's stance (h) on, for instance, the level of violence to engage in (add the associated degree of aggrievement), now shift their support to the hard-liners—the deal is not good enough from their point of view to agree to it. So all the members of M who are to the right of m (as you look at the page) reject the deal and now back H . Offering a deal that would win this group over is too costly from the government's point of view to be worth making.

This implies the final result I said I would show: neutralizing the moderate terrorists by granting them concessions increases the government's chances of winning ($p > r$), but it also increases the hard-liners' ability to inflict violence on the society.

Comparing the bars in [Figures 13.2a](#) and [13.2b](#) that show who supports whom we see that the government's clout—the resources it can call on in its fight against terrorism—increases as a result of the disarmament of the moderates and their assistance with counterterrorism activity. This is easily seen by the increased number of green bars in [figure 13.2b](#) compared to [13.2a](#). These extra resources improve the government's counterterrorism efforts, making success more likely than before ($p > r$). But we also see that, if the hard-liner terrorists survive the increased pressure that they face because of counterterrorism activity, they are in a position to raise the total level of violence experienced in the society. This is most easily seen by noting that there is one more orange bar—resources that formerly went to the moderates and now back the hard-liners—in [figure 13.2b](#) than in [13.2a](#). As we have seen, this occurs because the more radical of the individuals who earlier backed the moderate terrorists now (because they no longer have the moderate terrorists to give money to) begin to give resources to the hard-liners. The concessions granted by the government, although acceptable to m members of the moderate terrorists and to anyone who favored using less violence than they did, are not sufficient to satisfy those more radical members of M to the right of m who feel more aggrieved and so endorsed using more violence than the now defunct moderate terrorist faction did. These people now give their resources to the hard-liners because they prefer the hard-liners' policy preferences as supported by h in H , including their intended level of violence to the government's intended level. Therefore, whenever counterterrorism efforts fail to wipe out the hard-liner faction, we should expect that a deal with the moderates will raise the level of violence,

as suggested by the fourth proposition. It also raises the chances that the hard-liners will win. Some of *M*'s resources have been allocated now to the government, improving their odds of victory over terrorism but not necessarily their odds of victory over the hardliners who now also have extra resources at their disposal.

This result from our simplified version of Ethan Bueno de Mesquita's (2005a) model is consistent with a large body of empirical research on terrorism that reports on the frequency of increased violence after successful negotiations. That might make us think that it makes no sense to compromise even with moderate terrorists, but we must be very careful not to jump to that conclusion. The increased violence occurred in those cases in which counterterrorism efforts failed to lead to the elimination of the hard-liner faction. There are many examples of hard-liner factions being completely wiped out because of the counterterrorism support granted in exchange for policy concessions. A few examples include the elimination of the Quebec separatist organization, the Front de Libération du Québec (FLQ), in the 1980s; the intense counterterrorism efforts in Northern Ireland against the Real IRA undertaken by the Provisional IRA and the police following the deadly bombing of Omagh by the Real IRA; and the Hagannah joint effort with the British against the Irgun and Lohamei Herut Yisrael (LEHI) during the 1940s in British Mandate Palestine (see Bueno de Mesquita 2005a, esp. 146–147).

The challenge to establishing a long-lasting peace—in the Middle East, Northern Ireland, Sri Lanka, or elsewhere—is to identify the more moderate terrorist factions and enlist their aid in eliminating or capturing hard-liners. This can be done successfully, provided the motivation and resources controlled by the relatively moderate terrorists and their newfound government allies are sufficient to punish hard-liners effectively whenever and wherever they are found. By reaching a negotiated compromise and working together, it becomes possible for all parties to separate the various types of opponents from one another so that perceptions are refined, beliefs are updated, and appropriate strategies are chosen. By separating types, which occurs when the government offers the correct level of concessions, the promise of peace can be turned into a reality.

LAND FOR PEACE: A CREDIBLE COMMITMENT

PROBLEM

The model we just studied helps us see unexpected difficulties in advancing the prospects of peace in the Israeli-Palestinian dispute. The Israelis are asked to exchange land for peace. The difficulty here is twofold: (1) the credibility of the commitments on each side and (2) what the bargaining model implies about the concessions that could resolve the impediments to peace in the Palestinian-Israeli case.

Land for peace deals call for sequential strategic decisions. That is, Israel gives up land now in exchange for normalized relations with the Palestinians and other Arab states later. But once the land has been given up, it is extremely costly to recover it if the Palestinians and the Arab states renege on their part of the bargain. Thus, because peace is not expected to come until the land issues are resolved, the success of such proposals relies on the perception by the Israelis that their rivals will subsequently live up to their end of the bargain. “Their end of the bargain” includes a credible and valuable commitment of counterterrorism efforts.

We have seen that a bargain can be struck that resolves the commitment problem for both the government and moderate terrorists but only if they have self-interested reasons to collaborate and carry out their promises. That is, the Israelis would need to cede land (and other issues) to Mahmoud Abbas’s Palestinian government, and the Abbas government must use its counterterrorism capabilities to neutralize threats from hard-liners such as many in the Islamic Jihad and Hamas. But there is a problem even if the Abbas government is well intentioned.

In our simple model, we relied on common knowledge to find the right offer (k). In the real world, the problem is more complicated because all the pertinent information is not common knowledge. The Israelis have learned that Mahmoud Abbas is willing to speak out against terrorist violence, but they do not know whether he has the wherewithal or the will to engage in effective counterterrorism activity. Abbas, likewise, cannot be certain that Israel’s government will implement all the concessions that the Palestinians need in order to agree to a permanent end to terrorism in that region. There is always a risk that the Israelis will implement some concessions and renege on others.

If the Israeli leadership lacks confidence in the commitments of the Arab states, then the Israelis cannot be expected to give up land for the

unenforceable promise of peace. From the Arab perspective, however, granting peace before receiving the land commitments is equally risky. Although the Arab states can retreat from peace back to war if Israel reneges on its promises of land concessions, the move back to a state of war is politically, emotionally, and materially costly. Having conceded peace, they have no assurance that Israel will yield the land. Each side is trapped in a bargaining game in which the absence of trust makes reaching a mutually beneficial outcome, a Pareto improving outcome, extremely difficult. Here again the problem may well be with perceptions rather than reality. It is possible that each side would behave perfectly honorably in enforcing its parts of a peace agreement. The problem is that if either did not the cost of gambling on the peace agreement may well exceed the cost of maintaining the current state of war. But what if both sides were assured of the sincerity of the other side? Is that sufficient to forge a successful peace deal? If the model we used is right, the answer is probably not!

A difficult problem in pursuing peace revolves around the value of counterterrorism assistance. For the Israelis, following the logic of the model in [figure 13.1](#), an offer of concessions—such as land—is constrained in its value to be less than the marginal value of counterterrorism information.

$$\frac{p-r}{p} > k$$

Recall that p sets the value of the concession the government (Israel in this example) is willing to make and $p - r$ is the marginal improvement in the odds of defeating the hard-liners (the Islamic Jihad, Hamas, etc.) based on counterterrorist intelligence. Israel's intelligence agency, Mossad, is very good at acquiring counterintelligence information on its own. Hence, the marginal value of added information from Abbas's government is likely to be small, making it likely that $(p - r)/p$ is small. That means the Israelis, as part of their equilibrium strategy, will only offer small concessions to Fatah. As Israeli concessions shrink, their value to the Abbas government shrinks, making a deal less likely.⁶ So, here we see an implication of the model that highlights an impediment to peace that is difficult to overcome. Counterintuitively, Israel's high quality intelligence about its hard-line adversaries makes a negotiated peace deal less attractive. To satisfy the Palestinians, the Israelis must give up more than the value, as they see it, of the counterintelligence they can get from them. From the Palestinian perspective, the concessions the Israeli government is willing to give are too small to be worth the political costs and so, even if everyone is sincere in

desiring peace, it proves difficult to achieve a peaceful outcome.

SUMMARY

Terrorism is, to a significant degree, a problem of perceptions and the associated difficulties with credible commitments. Sometimes it is possible to distinguish among competing hypotheses about terrorism by changing our own behavior. This is precisely the process that led to progress toward peace in the Middle East and in Northern Ireland. Our examination of terrorism in this chapter has highlighted how beliefs can promote policies that produce unintended consequences. Only through a change in behavior—that is, through a calculated risk—is it possible to break, or at least diminish, the cycle of terrorist violence. But we cannot blithely call for such a gamble without considering the real risks and costs associated with it, including one side's reneging on its commitments and, if counterterrorism efforts fail, an increase in violence implemented by the remaining, more extreme terrorists who acquire additional resources when more moderate factions compromise with government. By improving our understanding of how perceptions and strategic conditions influence choices, we can help foster progress toward peace throughout the world.

KEY TERMS

complacent opponents

pooling equilibrium

posterior belief

reluctant terrorists

separating equilibrium

true believers

type

updated belief

Answers:

1. Israel's intelligence agency, Mossad, provides high quality counterterrorism intelligence. This means that the Israeli leadership is not very dependent on counterterrorism information from Palestine's leadership. Hence, the Israeli leadership has relatively little incentive to grant concessions to the Palestinians in exchange for their counterintelligence information.
2. Offering to negotiate with terrorists can help separate the truly hard-line terrorists (e.g., most Islamic Jihad members or Al Qaeda members and many Hamas members) from those who are more moderate and more pragmatic. The latter (e.g., significant parts of Hamas today, most members in the past of the Irish Republican Army (IRA) during "the troubles" in Northern Ireland) are open to negotiations but, of course, don't get the chance to engage in such negotiations if the government refuses to bargain with all terrorists. The more moderate terrorists may actually only engage in terrorism because they believe no other route is open to them to redress their grievances.
3. It is almost certainly not possible to credibly commit to concessions to all parties to a terrorist movement. Typically, a deal can only be credible if some set of terrorists are rewarded in exchange for their help through counterterrorism against the remaining terrorist factions or groups.
4. A successful negotiated agreement with more moderate or pragmatic terrorists can result in an increase in violence if counterterror measures do not eliminate the remaining, usually more extreme terrorist groups. This is so because some of the more extreme backers of the moderates are unhappy with the deal that a government makes with the larger, even more moderate group of moderate terrorists. The few who are unhappy put more resources into the coffers of the hardliners following a deal. Thus, the hard-line groups have improved resources for violence.
5. A deal with moderate terrorists may put more resources in the hands of extreme terrorists but it also puts more resources and support behind the government—especially in the form of improving counterterrorism measures, increasing the chances of a government victory over the remaining terrorists.

¹ He was a member of a party called the Praja Socialist Party, which had a strongly pacifist platform and outlook on political struggle.

² Remember that the vertical line symbol $|$ is read *given*; the symbol $\sim$ is read *not*.

³ The discussion that follows provides a considerably simplified terrorism negotiation game inspired by a more subtle and nuanced game concerned with the commitment problems and adverse selection difficulties surrounding efforts by governments and terrorists to negotiate with one another. That game was developed by Ethan Bueno de Mesquita. Those interested in a deeper examination of the issues are encouraged to read his fuller treatment of this and other issues related to terrorism (for a bibliography, see Bueno de Mesquita's publications at <http://home.uchicago.edu/~bdm/papers.html>, especially his 2005 paper on conciliation and his terrorism papers in 2007 and 2008).

⁴ The alternative assumption is that there are moderate terrorists who support a total victory by the government more than a total victory by hard-liners. Such groups might exist, but it is hard to see why they would not simply have aligned with the government to defeat the hard-liners in the first place. Because the government's victory is better than a victory by the hard-liners for this hypothetical type, the government does not need to offer concessions to gain the moderates' support against the hard-liners. That is not a particularly interesting problem.

⁵ An offer of concessions that is acceptable both to the government and to the moderate terrorists is equal to choosing k such that

$$\frac{p-r}{p} > k > \frac{X-c-(1-p)H}{p}$$

⁶ That is, k gets smaller to ensure that $(p-r)/p$ remains larger than k even as $(p-r)/p$ approaches 0 because p , the probability of victory against hard-liners with counterterrorism assistance is not very different from r , the probability of victory against hard-liners without counterterrorism assistance.

14

A Democratic World Order

Peace Without Democratization



Tyranny and corrupt rule may be defeated by coalitions of international powers, as was the case in World War II, when German high officials were ultimately forced to sign documents of surrender after Allied forces overran the Axis powers in 1945. They may also fall to domestic opposition, as was the case in November 1996, when Mobutu Sese Seko was ousted from the presidency by rebel forces in his own country of Zaire (now the Democratic Republic of the Congo).

OVERVIEW

- The spread of democracy has a pacifying influence since democracies tend not to fight wars with each other.
- Democracies also tend to be policy oriented in their wars, which encourages them in victory to impose **puppet governments** that

will do what the victor's constituents want.

- These aspects of democracy unfortunately also discourage democracies from being democratizing nation builders.
- The chances that a democratic state will succeed, through intervention, in promoting the spread of democracy abroad is slim because the citizens in target states are likely to have different policy priorities than those of the intervener's own winning coalition.
- The intervening state is less likely to establish a liberal democracy than an autocratic or rigged-election polity that it expects will be more willing to agree to implement the policies it desires. As a result, intervention does little to promote democracy and often leads to its erosion and the substitution of largely symbolic reforms for the real thing.

When, on April 2, 1917, President Woodrow Wilson called on Congress to declare war against Germany, he affirmed the following:

The world must be made safe for democracy. Its peace must be planted upon the tested foundations of political liberty. We have no selfish ends to serve. We desire no conquest, no dominion. We seek no indemnities for ourselves, no material compensation for the sacrifices we shall freely make. We are but one of the champions of the rights of mankind. We shall be satisfied when those rights have been made as secure as the faith and the freedom of nations can make them.¹

With these few sentences, Wilson articulated his proposed solution to a problem as ancient as humanity: how to achieve a peaceful world for all time. Like Immanuel Kant long before him, Wilson saw the attainment of world order in the promotion of global democracy. Yet by the war's end, neither he nor the leaders in other victorious states saw in his commitment to self-determination an equal commitment to the liberation and democratization of Europe's or America's colonial empires. Apparently, the call for democracy

was subdued if not completely suppressed when its spread did not serve the interests of the victors.

Self-interest, not Wilson's declaration that "we have no selfish ends," is critical to whether and when democracy can be exported to others by already democratic states. As obvious as it may be to say that leaders pursue their own interests, discussions of global democratization fall far short of reflecting this view or of exploring its implications. Here is an arena in which a perhaps overly rosy view of domestic interests has dominated the discussion without the tough realist-like focus on whether promoting democracy is good for national security or leader survival. In this chapter, we see how a realistic (as distinct from realist) view of the interplay between domestic politics and foreign policy leads to pessimism regarding the likelihood that democratic states promote the spread of democracy and to optimism regarding the prospects that a more democratic world will be a more peaceful world.

At George W. Bush's second inauguration (in 2005), he, almost certainly unintentionally, drew attention to the critical friction that exists between the optimistic view that emphasizes the benefits of democratic nation building and a hard-nosed view that emphasizes its downside. Bush proclaimed the following:

"The survival of liberty in our land increasingly depends on the success of liberty in other lands. The best hope for peace in our world is the expansion of freedom in all the world.... So it is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world."

Yet in that same inaugural address he also proclaimed, "My most solemn duty is to protect this nation and its people against further attacks and emerging threats".²

There is great tension between the ideas contained in these few sentences—how can a nation promote democratic reform in other nations *and* protect the promoter nation and its people from foreign threats? One answer, as we will see, is that free, democratic societies typically live in peace with one another. They also tend to promote prosperity at home and, as we learned in [chapters 10 and 11](#), they promote free trade around the globe, making democracy seemingly attractive both as a form of governance to be exported

and, we might think, as a form of government to be imported. Yet, democratic reform abroad rarely enhances the security of Americans (or citizens elsewhere in the world) against foreign threats and may even jeopardize that security. However beneficial democracy is for a peaceful world order in the long run; in the short term, it can be a threat to that very peace.

Assumptions Check

1. Democracies win a much higher percentage of the wars they initiate than do autocrats. This is because _____.
 - a. democratic governments are more selective about their willingness to wage war
 - b. democratic armies are better equipped and better trained than autocratic armies
 - c. democracies try harder to win than do autocracies
 - d. all of the above
 - e. none of the above
2. Democracies fight with each other _____.
 - a. just as often as autocracies fight with each other
 - b. more often than autocracies fight with each other
 - c. almost never
3. Do democracies that intervene militarily in disputes in other countries strongly encourage democratization in the targeted states or strongly discourage democratization in the targeted state?
4. The democratic peace is the product of _____.
 - a. superior moral and ethical behavior of democrats in foreign affairs
 - b. differences in the impact that alternative governing institutions have on the incentives of leaders to only fight when they are extremely confident of victory
 - c. the risks to the well-being of democrats compared to autocrats following a defeat in war
 - d. a and b

- e. a and c
- f. b and c

See end of chapter for answers.

To better understand the tension between promoting peace through democratization and limiting domestic interests through the same process, this chapter begins by looking at the pacifying effect that the spread of democracy can have. After establishing the fundamental factors that make up and contribute to what is known as the democratic peace, I turn to the domestic political constraints that make democratic governments especially unlikely to use their political power to advance the spread of democracy.

THE DEMOCRATIC PEACE

The central contention of the democratic peace is that democracies rarely, if ever, fight wars with one another even though they are not particularly reluctant to fight wars against nondemocratic or illiberal regimes. But the democratic peace is much more than just a statement about pacific democratic behavior. It encompasses a lengthy list of fairly well-established facts about democracies in disputes—facts that collectively help explain the potential pacifying impact of a democratic world order. The broad set of empirical regularities that collectively make up the democratic peace include the following:

1. Democracies tend not to fight wars with one another (Maoz and Abdolali 1989; Russett 1993; Ray 1995).
 - a. Democracies tend to reach peaceful settlements when disputes arise with other democracies (Dixon 1994).
 - b. Democracies are more likely to fight with one another when they are in transition to democracy than when they are mature democracies (Mansfield and Snyder 1995).
2. Democracies do fight wars with nondemocracies with considerable regularity (Maoz and Abdolali 1989).
3. Democracies make an extra effort to win when they discover that a war is

more challenging than they anticipated, while nondemocracies do not (Bueno de Mesquita et al. 2003, 2004; see [chapter 6](#)).

- a. Democracies overwhelmingly emerge victorious in war (Lake 1992; Reiter and Stam 1996, 2002).
 - b. Democracies are more likely to fight shorter wars than are autocracies (Bennett and Stam 1996, 1998b).
 - c. Democracies are no more reluctant than nondemocracies to fight with weak rivals, but they are more reluctant to be weak rivals themselves (Bueno de Mesquita et al. 2003, 2004).
4. Democracies are more likely to initiate war against autocracies than autocracies are to initiate wars against democracies (Bennett and Stam 1998a).
 5. Democracies experience fewer battle deaths in the wars that they initiate (Siverson 1995).
 6. Democracies spend more to enforce the peace following military victory than do nondemocracies (Bueno de Mesquita et al. 2003, 2004).
 7. Democracies are more constrained as major powers and are therefore less likely to engage in war than are minor powers (Morgan and Campbell 1991).

In the pages that follow, I focus on a few of these regularities and explanations for them. Each of these empirical regularities has been shown to follow logically from the selectorate theory (Bueno de Mesquita et al. 1999; 2003). I do not recount each element here but rather highlight the critical features that contribute to the pacifying influence of democracy. Then I relate why it is that this pacifying influence unfortunately is not a motivation behind democratic efforts at nation building.

Some Evidence

Before turning to explanations, let me add a few bits and pieces of evidence about some of these regularities to help put some flesh on them. The two biggest contentions are that democracies don't fight one another but that they do fight others. It is easily demonstrated just how strong this peaceful tendency among democracies is. For instance, if we define a country as a full-fledged democracy by the standard that it achieved the highest rating on the

Polity Index, which measures, loosely speaking, the extent to which a government assures competitive participation in the leader-selection process (with competitive recruitment of leaders), constrains leaders, and makes the process open to a broad segment of the population, then no pair of democracies has fought a war with one another at least since the end of the Napoleonic era in 1815.³ That fact stands in sharp contrast to the pattern demonstrated by other kinds of governments even after we correct for the relative scarcity of democracies for most of the past two centuries.

TRY THIS

Provide a definition of *democracy* and a definition of *war*. Can you think of examples of wars between two or more democracies that satisfy your definition? List them, and explain briefly what you think the causes of the war were. If you cannot think of examples within your definitions, then consider the following cases of violent conflict between two apparent democracies: the United States and the Confederate States during the American Civil War, the US invasion of the Dominican Republic in 1965, and the fighting between Iceland and the United Kingdom over fishing rights during the 1960s. Are there characteristics that make it straightforward to explain these events in light of the democratic peace? What are they?

We do not need to limit ourselves to a demanding, high standard of democracy to see that there is a democratic peace. Using the much weaker standard that a country is a democracy if it scores at least 7 out of 10 on the Polity Index, then only 2 of the 127 wars fought since 1816 have been between two democracies. These two conflicts were between Turkey and Cyprus in 1974 and between Pakistan and India in 1993. Each of these cases faced specific conditions (such as a military coup just before the war) that might lead us to question whether these governments were still democratic at the war's start. Among disputes between pairs of nondemocratic states, about 5 percent escalate to become wars. Among disputes between pairs of democracies, less than 1.5 percent become wars. Mixed democratic and nondemocratic pairs of countries find about 4 percent of their disputes escalating to war. The odds of there being so few wars between democratic

pairs, even using this weak standard for defining democracy, is so low that it is highly unlikely to have arisen by chance (the probability it occurred by chance is 0.035).

Another important empirical regularity that contributes to the pacifying influence from the spread of democracy relates to how much harder democratic governments try than autocratic governments to win their wars once a war proves more difficult than expected. We learned in [chapter 6](#) that democratic governments are highly selective about the wars they fight, and once they fight and find a war more difficult than expected, they try harder than autocrats to achieve victory. Democrats win about 93 percent of the wars they initiate; autocratic governments win only about 60 percent of the wars they start (Reiter and Stam 2002). That's barely more than a flip of the coin for autocratic initiators, but it is an overwhelming edge for democracies. With these bits of evidence, plus the evidence in [chapter 6](#), under our belts we can see that there are good reasons to believe that there is, in fact, a democratic peace.

Many theories are able to explain at least parts of the broad generalizations that collectively constitute the democratic peace. Let us consider some of the prominent alternative explanations, and then we will probe more deeply the implications of selectorate theory for the pacifying elements of the democratic peace that were ignored in [chapter 6](#).

EXPLANATIONS OF THE DEMOCRATIC PEACE

Immanuel Kant ([1795] 1983) provided an explanation for peace between democracies (or, more precisely, republics in his terms). He contended that because the people have to bear the costs of war, they are reluctant to endorse it, and war is rare in representative governments because it requires the people's endorsement. In more recent times, Kant's argument and other theoretical accounts have been expounded and tested. Zeev Maoz and Bruce Russett (1993), for instance, proposed a normative explanation of the observation that democracies tend not to fight each other. They argue that democratic governments are accustomed to the politics of compromise in their internal affairs. Democracies carry this pattern of behavior into their international interactions with other democracies, each knowing that the other democracy also has internalized a norm of compromise. But, according to this perspective, when confronting a nondemocratic rival, democrats adopt

the rival's uncompromising norm so as to better defend their national survival against the more aggressive ways of autocracies.

The normative theory has come under rigorous theoretical and empirical challenges. It does not explain, for instance, why democracies fight colonial and imperial wars. In those cases the rivals, being weak, represented no threat to the survival of the aggressor democratic state. Therefore, according to the normative perspective such wars should not occur. That they do seems to falsify the normative explanation.

Contrary to the normative explanation, the selectorate account of the democratic peace explains, *inter alia*, why democracies fight wars of colonial and imperial expansion. Democratic leaders, like all leaders, have a preference for wars that are easy to win. Prospective colonial adversaries typically are weak and easily conquered. Likewise, the selectorate account, as we discussed in [chapter 6](#), also explains why democracies are more likely to fight wars over policy-related or leadership-succession issues rather than over territorial acquisition. The selectorate perspective also explains the empirically observed willingness of democracies to overthrow foreign rivals more often than do nondemocratic interveners (Bueno de Mesquita et al. 2004, Morrow et al. 2006). Because democrats must deliver policy benefits to their constituents, they often find it necessary to impose a puppet regime in vanquished states so that they can ensure enforcement of the postwar peace (Bueno de Mesquita et al. 2003; Lutmar 2009). This feature of democratic behavior will loom large later in this chapter when we examine the reasons democracies are especially bad at promoting democratic nation building.

Pacifying Benefits from Trying Hard

We learned in [chapter 6](#) some of the evidence and the logic for the claim that democrats try harder to win difficult wars than do autocrats.⁴ This claim about war effort has several important implications for the pacifying influence that results from the spread of democracy, the topic of concern here.

Consider what happens if two democrats face off in a dispute. When two democrats are at loggerheads, war is unlikely. Each democratic leader has similar, institutionally induced incentives (Mintz and Nehemia 1993), including an incentive to try hard if war ensues. Each must provide policy success in order to be retained by his or her constituents. Each must be

particularly confident of winning the war before choosing to fight rather than settle. The likelihood is practically naught that leaders of two rival democracies both believe that their prospects of victory are nearly certain at the same time in the same dispute (Fey and Ramsay 2007; but see Slantchev and Tarar 2011). This, in itself, is a great pacifying influence of the spread of democracy. Rather than fight a war they deem to be too chancy, democracies are inclined to negotiate with one another (Lake 1992; Stam 1996, 176–178).

By contrast, autocrats typically reserve their resources for domestic uses because their political survival depends more on satisfying a few key constituents through the distribution of private goods than it does on military victory. Autocrats do not have a great need to produce successful public policies. Consequently, autocrats try less hard than democrats in war but still sometimes fight in wars where their chances are poor because defeat does not affect so greatly their prospects of political survival at home. Thus, the spread of autocracy is less likely to exert a pacifying influence on the world order than is the spread of democracy.

The claim for the greater democratic urge to find negotiated settlements to disputes is further reinforced by what happens following defeat in war for democrats and autocrats. After all, what has happened to fellow democrats or fellow autocrats following defeat is likely to be known to current leaders and to influence their own choices about how they conduct themselves in disputes. With that in mind, let us look at the expected fate of an ousted leader following defeat in war.

Democrats, as we already know, rarely lose wars and so are rarely deposed by a victorious foreign rival. We have seen that this is no accident. It is the product of how much more carefully democrats select the wars they fight than autocrats and how much harder they try to win. Still, democrats do sometimes lose wars. When they do, they are more likely to be ousted by their domestic audience than by a victorious foreign adversary. What happens to the defeated democratic leader and how does that differ from what happens to a defeated autocrat? Goemans (2000, 2008) and Chiozza and Goemans (2004) note that not only does the probability of losing office constrain war and peace policy choices but so too does how a leader expects to lose office. Democrats ousted from office go on to write memoirs and live out their lives in peace. More often, deposed autocrats are executed, imprisoned, or exiled by foreign victors. They, and we, must weigh the risk of foreign deposition following military defeat against the risk of being overthrown by domestic

forces instead. Autocrats are more likely to be overthrown—and executed—by disgruntled domestic backers for not paying them off than they are by a foreign victor. As a result, autocrats neither try as hard to improve their prospects of victory in war as do democrats, nor do they try as hard to negotiate settlements for their disputes if doing so means shifting private rewards away from their cronies and to the foreign rival (Bueno de Mesquita et al. 2004, Morrow et al. 2006; for a counterargument, see Debs and Goemans 2010 and for a challenge to their claims, see Svolik 2009 and Bak and Palmer 2011). There are, as noted in [chapter 6](#), two exceptions to the theoretical claim that democracies try harder in war than autocracies. They are worth repeating because they are central to properly testing the related democratic peace propositions. First, all leaders will commit as many resources as they can in pursuit of victory if they believe they are fighting a war that will result in their being deposed by the foreign adversary if it wins. The second exception arises when the adversary is so weak or lacking in motivation compared to the attacker that no extra effort is required whether the attacker is an autocrat or a democrat. Wars of colonial and imperial expansion were typically waged by powerful states against extremely weak, poorly armed opponents that had virtually no prospect of victory. In these cases, as noted previously, the aggressor did not need to put in any extra effort to ensure victory. [Figure 14.1](#) illustrates the point. Barring these exceptional circumstances, a world with more democracies implies greater prevalence of pacifying effects when disputes arise; more autocracies does not!

FIGURE 14.1 Expectations of Difficulty of Victory and Level of Effort to Win



Okay, so far we have seen why a more democratic world implies more disputes that are solved through negotiation than war and we have seen an argument for why democrats depose their vanquished rivals more often than autocrats do. That, however, still leaves us with many questions about what democratic leaders do following military victory and what their actions imply about Wilson's optimistic call for spreading democracy around the world. Let's start by having a careful look at how victorious democratic leaders can be expected to behave.

Enforcing the Postwar Peace

So far, we have argued that selectorate theory provides an explanation for the differences in what democrats and autocrats fight wars about and also for the observation that democrats are victorious far more often than autocrats. Now let's use selectorate logic to offer an explanation for what happens when a war is over. As we have seen, those who rely on a small group of supporters are disproportionately likely to fight to gain private goods like land, natural

resources, and tribute. As Sun Tzu, adviser to King Ho Lu of Wu (c. 544–496 BC), wrote in *The Art of War*, “when you capture spoils from the enemy, they must be used as rewards, so that all your men may have a keen desire to fight, each on his own account” (1983, 9–14). The beauty of fighting for land or resources rather than policy is that it is relatively easy to enforce the postwar peace. It is, after all, difficult for the vanquished regime to renege on a land transfer or the immediate payment of tribute. Doing so would mean restarting the war. Since they lost to begin with, there would be little reason to think that they would win now by starting the fight all over again.

But democrats, as we saw, are much more likely to fight over policy gains. As President Ronald Reagan’s secretary of defense Caspar Weinberger argued, “The United States should not commit forces to combat overseas unless the particular engagement or occasion is deemed vital to our national interest or that of our allies.” Unlike Sun Tzu, who was advising a small-coalition leader, Weinberger emphasized that war had to be about issues vital to the national interest, however that was defined by the broad constituency required to sustain an American president in power. Of course, large-coalition regimes may fight over natural resource access, such as oil, but if the selectorate argument is to be believed, such fights are not to enrich a few cronies as in Sun Tzu’s view but because reliable, predictable oil supplies are vital to the welfare of the citizenry and the interest of allies.

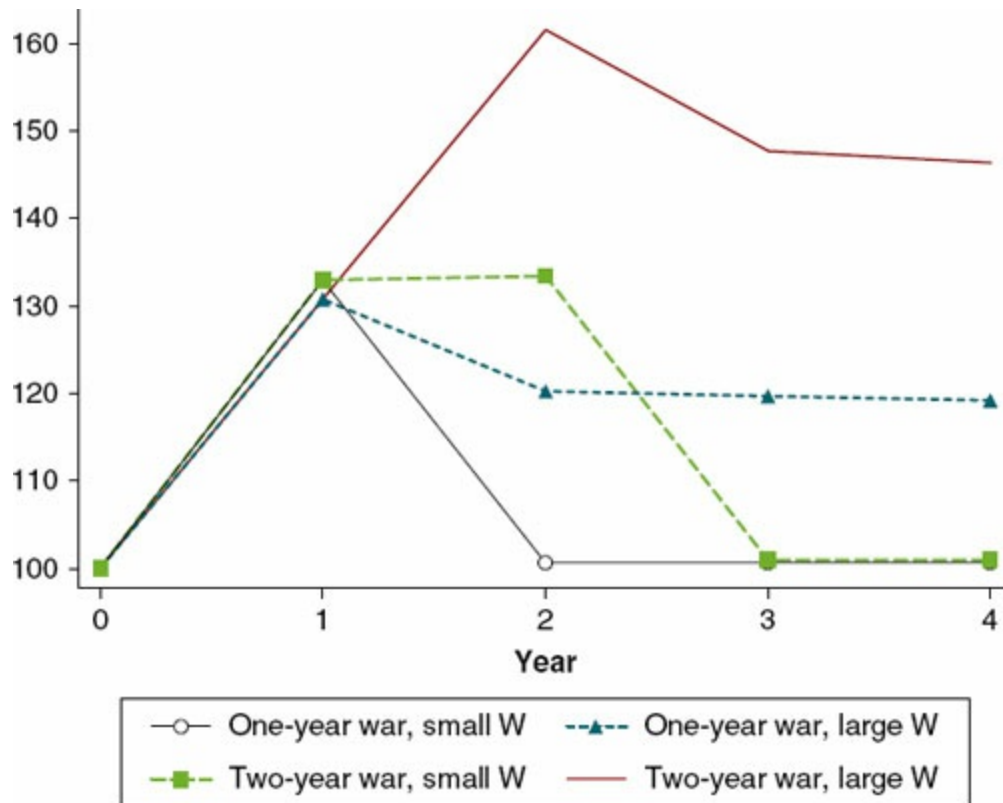
When wars are fought to secure policy concessions, it is easy for the vanquished regime to renege as soon as the victor goes home. Therefore, democratic victors, seeking policy gains, are less likely to go home right away. Instead, they frequently need to leave an occupying force behind to enforce the postwar peace, and the attendant policy concessions (Bueno de Mesquita et al. 2004; Lutmar 2009). That means the defeated state’s leaders are not free to pursue whatever policies their own people want, and it means that victorious democrats cannot demobilize their armed forces postwar nearly as quickly as victorious autocrats who have much less need to enforce the peace.

The exception in the case of autocratic demobilization arises when an autocratic victor hopes to extract ongoing tribute rather than a one-time gain. This, for instance, was the circumstance for the Soviet Union after World War II when they occupied the neighboring Eastern European states and compelled them to be clients of the Soviet Union in trade and security policy. But that was an exceptional circumstance. Usually autocrats take the money

—or territory—and run. [Figure 14.2](#) shows very clearly how strong the difference is in the pattern of war effort and demobilization depending on the size of a regime’s winning coalition. It is evident that the patterns in actual war over the past two centuries, as depicted back in [chapter 6, figure 6.2](#), looks very much as predicted by selectorate theory.

We have now seen that logic and evidence support the idea that democracies live together in peace, promoting a beneficial world order. But, recalling the passages quoted earlier from President George W. Bush’s second inaugural address, we must reconcile his democratic peace claim that “the best hope for peace in our world is the expansion of freedom in all the world” with his statement that “my most solemn duty is to protect this nation and its people against further attacks and emerging threats.” In doing so, we will see, as we did when we looked at foreign aid in [chapter 12](#), that the best hope for peace is often necessarily sacrificed on behalf of constructing a world order that rewards domestic supporters even at the expense of those hoping for democracy in their own land. We have already seen a hint about the fundamental problem for democrats in working to spread democracy. In thinking about democratic nation building, keep firmly in mind what was said in the previous paragraph: defeated state’s leaders are not free to pursue whatever policies their own people want.

FIGURE 14.2 Coalition Size, War Effort, and Postwar Demobilization



Vertical axis: 100 – baseline pre-war military spending.

Source: Bueno de Mesquita et al. (2004).



President Bush declares the end of major combat in Iraq as he speaks aboard the aircraft carrier USS **Abraham Lincoln** off the California coast, in this May 1, 2003, photo. Democratic congressional leaders on May 1, 2007, sent Iraq legislation-setting timetables for US troop withdrawal to President George W. Bush and a certain veto. On the fourth anniversary of the president's "Mission Accomplished" speech, Senate majority leader Harry Reid, D-NV, said that Bush "has put our troops in the middle of a civil war. A change of course is needed."

DEMOCRACY: A HINDRANCE TO DEMOCRATIZATION

In the abstract, it is easy to contend that we are all for seeing democracy spread around the world. It is also easy to contend that we seek to be secure within our own borders, free to pursue the policies that we most favor. The two, however, often do not go together, necessitating tough choices between supporting democracy and supporting our own policy goals and our own security.

Consider how much more democratic current-day Iran is (for all its tremendous democratic limitations) than it was under Shah Mohammad Reza Pahlavi (a monarch) prior to his being deposed by Iran's Islamic Revolution in 1979. Under the shah's regime, the Iranian people had no say in choosing their leaders or in removing them from power. Today, Iran has competitive political parties and elections that have real winners and losers. To be sure, no one can run for office without the approval of Iran's religious leaders in the Supreme Council (whose members are not elected), but the choices are still vastly larger than they were under the shah. Equally, consider how little the United States and other Western democracies treat the democratically elected leaders of Hamas as legitimate spokespeople for the desires of the Palestinian people. Neither Iran's theocracy nor Palestine's (or at least Gaza's) Hamas is welcomed as a source of improvement in American security, despite their both being more or less democratically chosen. It is evident that the immediate concern for adverse security consequences often trumps the longer-term benefits everyone realizes through democracy. That may well be why the record for exporting and spreading democracy is as dismal and disappointing as it is.

The stirring and optimistic words of Woodrow Wilson and George W.

Bush are but a pale reflection of American policy or of the policies of other democracies now or in the past. As sincere as is the belief in promoting democracy, pragmatism leads democratic leaders to reject democratic developments around the world when those developments impede the well-being of their own people. When we consider this as a strategic matter, we see that the self-interest of leaders in democratic nations generally diminishes their incentives to promote democracy. What is more, the failure to promote democracy, however lamentable it may seem, generally indicates that democratic incumbents are upholding their foremost responsibility to their own citizens. They are doing their duty; they are promoting their constituents' well-being; and in the process, they are also promoting their own (or their party's) prospects of reelection. That is the job of all democratically elected leaders: to enhance their own reelection prospects by delivering effective policies to their own—not someone else's—voting public.

Although it is common to contend that many military interventions are motivated by the desire to bring down an evil regime and replace it with one chosen by the people, the consequences of military intervention rarely have that effect (Bueno de Mesquita and Downs 2006; Easterly, Satyanath, and Berger, 2008). Instead, the urge by a democratic intervener to gain policy compliance that satisfies constituents at home trumps the urge to help a society become free. The US intervention in Iraq in 2003 led to the overthrow of the Saddam Hussein regime. That surely was a good thing for many Iraqis. But when free elections in Iraq at the end of 2005 gave more support to the party of the transition government's prime minister, Ibrahim al-Jaafari, President Bush made it clear that al-Jaafari was not the American choice. The US ambassador to Iraq delivered Bush's message to the leader of the largest Shiite political bloc, saying that Bush "doesn't want, doesn't support, doesn't accept" al-Jaafari as the next prime minister. (Wong 2006). Although the United States officially reiterated its stance that "the decisions about the choice of the prime minister are entirely up to the Iraqis," the US government called for a government of national unity and strongly criticized al-Jaafari. Al-Jaafari's interim government supported Shiite militias and drew its greatest backing from Muqtada al Sadr, an anti-American cleric with a large and powerful militia. After months of political argument and maneuvering, Nouri al-Maliki, not al-Jaafari, was chosen as prime minister. Why did Bush want al-Maliki? Because at the time he seemed clearly more responsive to

American policy interests! Today he is still Iraq's prime minister. Now, however, he helps provide aid to Assad's oppressive Shia regime in Syria, money used in direct contradiction to the stated policies of the American government. That, of course, was not a problem during Bush's watch—all leaders are short-sighted, concerned about current political consequences of their actions more than long-term outcomes.

Why did Bush pressure Iraqi leaders to choose someone desired by American constituents over someone apparently preferred by Iraqi voters? The answer lies in the second passage from his inaugural address, namely his desire to improve American security, a factor critical to his constituents at home. Faced with a choice between butting out of Iraq's internal affairs at the cost of strengthening anti-American militias and butting in at the expense of interfering with democracy, the president chose the latter course. That, indeed, seems to be what many who voted for Bush in 2004 wanted—a president who would work to strengthen American security by being tough in Iraq and tough on Al Qaeda everywhere and anywhere.

Let's look now at how this logic extends more broadly to all interventions—military, covert, and political. We will see that the rate of democratization is rarely increased in states that have experienced intervention because it is only rarely one of the major reasons that the intervention was undertaken in the first place.⁵ The focal points for an intervening state's administration are the policies of the target state that are most strongly connected with its own political success back home. In some cases, the intervener is interested in ensuring the continuance of policies that are currently being jeopardized (e.g., by another claimant to power during a civil war). In other cases, the goal is to institute a policy that is different from that currently being pursued (Enterline, Balch-Lindsay, and Joyce 2008). In either case, the policies involved are more closely connected to what are regarded as domestic public goods (such as increased security) or private goods (such as increased access to natural resources) in the intervening state than they are to the more global, longer-term public good of democratization. The status of democratization is often further diminished by a belief on the part of the intervening state's administration that democratic institutions in the target country will actually reduce the likelihood that the intervening state's domestic goals will be achieved. As a consequence, intervention only occasionally leaves an improved democratic trajectory in its wake. We should never forget that politicians, especially democratically elected ones, have short time horizons.

The long term for them is the next election, not some future beneficial state of the world that may help a distant successor to them at the price of costing them a reelection now.

Here, in the approach to a foreign regime following military intervention, we can see the strategic perspective at work. It turns out that a focus on domestic politics suggests that there are important differences among democratic interveners, autocratic interveners, and international institutions such as the United Nations. The domestic public-goods priorities that motivate democratic interveners and their winning coalitions could, but rarely do, have fewer negative consequences for the target state than does the private-goods orientation of autocrats and their winning coalitions. Let's see how the linkage between intervener regime type and nation building works.

DEMOCRACIES AND NATION BUILDING

We begin by asking what, according to the selectorate approach, motivates leaders to intervene in the affairs of other countries in the first place? Remember, we assume that any action a leader takes must at a minimum not be expected to harm her prospects of political survival and will generally be designed to increase those prospects. This suggests that democratic leaders are drawn to the strategy of intervention whenever they expect that the action will prevent them from having to absorb the electoral costs of a foreign policy failure or, conversely, enable them to reap the electoral benefits of a foreign policy success. Autocratic leaders function similarly. Although they may not have to worry about electoral costs per se, they do have to keep themselves in good standing with the constituency of wealthy and powerful individuals that enables them to continue in office, and this necessitates that they engage in similar strategic calculations.

TRY THIS

How much does the US federal government spend annually promoting democracy around the world, whether through new instances of democracy-motivated military intervention or new allocations of foreign aid? How much does the government spend on national defense, health care, social security, highway maintenance, national parks, and other

public goods? How high a priority does nation building seem to have in terms of spending compared to rhetoric?

Keeping political survival in mind, we need to consider where the goal of democratization is likely to rank relative to the other priorities that winning coalitions in democratic and autocratic states possess. This is an important concern because, just as it is more efficient for a democratic leader to assure her survival by providing public goods rather than private goods to her coalition members, it is also more efficient to provide the public goods that coalition members value above others. There is no reliable theoretical guide to the relative valuation of different public goods by the citizens of democratic countries, but history strongly suggests that the democratization of other countries ranks low on the list. Not only is intervention an activity that democratic states spend much less on than they do on domestic public goods such as education, health care, and defense, but when they do intervene, democratization is rarely given as the major reason for doing so.

American actions in Afghanistan and Iraq, though not strictly **third-party interventions** because the United States initiated the military actions against the Iraqi regime of Saddam Hussein and the Taliban regime in Afghanistan rather than intervening on behalf of one or another side in an ongoing dispute, nevertheless are probably characteristic of interventions. Although democratization has been mentioned as an ex post goal in both cases, the ex ante justifications that dominated domestic debate and presidential rhetoric were the war on terror and retaliation for the 9/11 attack on the United States in the case of Afghanistan and fighting the worldwide terrorist network and eliminating weapons of mass destruction before they could fall into the hands of terrorists in the case of Iraq.

The relatively marginal status of democratization as an ex ante motivation for intervention in Afghanistan and Iraq is generally corroborated by the broader literature dealing with public opinion and foreign policy. Although there continues to be disagreement about the relative importance of domestic and international factors in determining the use of force, there is fairly compelling evidence that both the severity of the perceived threat and the condition of the U.S. domestic economy play a significant role (Behr and Iyengar 1985; Holsti and Rosenau 1990; James and Oneal 1991; Nincic 1997). Neither provides much justification for expecting that leaders of

democracies who intervene are motivated primarily by a desire to establish democracy in a foreign state or will choose to do so once victory has been achieved. Severity of threat—especially high levels of threat—is a category more associated with a foreign leader’s policies than with the absence of democracy in the state that he governs. And the establishment of democracy in a foreign state has virtually no systematic impact on the condition of the domestic economy of the potentially intervening state.⁶ All in all, the list presented next reflects the order of priority that democratic politicians are likely to place on some common intervention goals (with the highest priority first). These goals are listed with an example of each involving the United States.⁷

1. Protection of lives, property, and institutions of the intervening state at home. The more immediate the threat and the greater the potential cost of not acting, the higher the priority that the mission is assigned. Example: The US overthrowing of the Taliban in Afghanistan in 2001.
2. Protection of the lives and property of the intervening state’s citizens abroad. Example: The US intervention in Grenada following the deposition of Grenada’s leader in 1983.
3. Protection of the lives, property, and political institutions of allies and states with which the intervening state is tied ethnically and culturally. The required threat threshold for this goal is greater than in goal 1 or 2. Example: The US short-lived intervention in Lebanon in 1958 and the longer intervention from 1982 to 1984.
4. Promotion of institutional stability in states that have policies that support the long-term security and economic welfare of the intervening state and its bargaining power in international institutions and destabilization of states whose policies do not. Example: The US intervention in El Salvador in 1984.
5. Protection of lives and to a lesser extent property and institutions in other states. Example: The US intervention in Somalia in 1992.

This list is not particularly encouraging regarding the centrality of democratization as a motivation for US intervention. Not only is it not listed but it is clear from both the descriptions of the five goals and the examples of each that the United States is often motivated to intervene in support of a nondemocratic government when doing so is likely to preserve policies that it

deems important. Nonetheless, granted that democratization is not the principal motivation for many interventions and granted that there are times when democracies have an incentive to prop up a sympathetic autocracy, isn't it still true that democratization often provides the best means for accomplishing many of the goals in the list? History, after all, suggests that in the long run democracies do a better job in promoting stability, providing a better quality of life, and, particularly, protecting the lives of their citizens than do autocracies. Doesn't this fact alone allow us to expect that a democratic intervener is likely to promote democracy in a target state for purely self-interested reasons even though a desire to promote democracy was not the original motivation for intervening? Alas, it seems the answer to this question is usually no.

There are several reasons why this is the case. The first reason has to do with the cost of democratization and which states can afford it.⁸ The likelihood that nation building will take place is determined by the conditions on the ground as well as the wealth of the intervening state. In this sense, the nature of the target population as well as the characteristics of the intervener are "responsible" for the low rate of nation-building success in the same way that the age and physical condition of a patient pool is to some extent responsible for the success/failure rate of a health care system. Some factors that determine the cost of democratization are a state's level of political and economic development, the level of tension among its ethnic and religious groups, the average citizen's level of education, the health of its civil society, the kind of government that its people are used to living under, the condition of its legal system, and the size and independence of its media. The worse a target state's score on each of these factors, the more difficult and the more costly the job of building a successful democracy will be.

Experience shows us that when states intervene to defend the lives and property of their citizens, the target states often have very poor scores on many and sometimes all of these factors. More often than not, the pool of potential targets is composed of predominantly developing states that are relatively poor, are characterized by a substantial amount of internal conflict, and have had relatively little experience with democratic institutions. These are precisely the sort of states where the costs associated with the establishment of a successful enduring democracy are likely to be greatest—too great to be borne by most intervening states if there is any other means by which they can establish their principal policy goals.

If the average target state resembled the average democracy or even a relatively high-income developing state, the cost of democratization would be much less, and the ability and willingness of the average democratic intervener to assist in creating a functioning democracy in the target state in the wake of its withdrawal would probably be somewhat greater, even if that was not its primary goal. However, this is not the case. As it is, only the wealthiest states are able to afford the enormous costs associated with staying the course for the years it can take for democracy to gain a strong enough foothold that a stable party structure is developed, executive constraints are institutionalized to the point where they cannot easily be overturned, and power can realistically be expected to transfer peacefully between rival parties. Less wealthy and powerful states simply don't have the luxury of being able to afford the same level of ambition. Their limited resources ensure that their interventions will tend to be intermittent, will be short term, and will rarely if ever involve anything that looks like state building.

TRY THIS

World War II ended in 1945 and was followed by military occupations of Germany and Japan, the defeated enemy powers. When did Japan and Germany hold their first multiparty national elections free of American or Allied military supervision? Who chose Japan's and Germany's political leaders before those elections?

The second reason why intervening democracies do not promote democratization in a target state is more subtle and involves the expectation on the part of even the wealthiest intervener that, in general, an autocratic administration in the target state will be more willing to adapt its policy to suit the needs of the intervening state than will a democratic administration. This is, of course, a central part of the selectorate argument on behalf of delivering benefits that coalition supporters at home value and want. To see why this is true in the realm of intervention, we need to shift our focus from the government of the intervening state to that of the target state as a means to build democracy and prosperity.

Implicit in the selectorate argument that democracies and autocracies emphasize the provision of different types of goods because of differences in

the size of their winning coalitions is a statement about the relative prices they assign such goods. Specifically, it tells us that, all other things being equal, one unit of public goods has less political value to an autocratic leader than it does to the leader of a democracy because it plays a smaller role in his maintaining power. This means that autocracies are likely to be more accommodating than democracies when it comes to adopting policies sought by the intervener even though those policies generate negative reactions at home. For example, if we have two developing states that are alike in every respect except that one state is a democracy and the other an autocracy—and a developed state offers them each the opportunity to enter into the bidding for a long-term contract that requires them to accept a substantial amount of nuclear and medical waste over the next five years—the autocratic leader is likely to charge the least for providing those services because the vast majority of the costs of the negative consequences will fall on those outside the autocrat's small winning coalition. As we saw in [chapter 12](#), autocrats generally can be bought more cheaply because it is easy for them to sacrifice the welfare of their citizens in exchange for personal gains or gains for the members of their small coalition.

This difference in the relative pricing of public goods tells us that, except in those cases where the leader of a democratic intervener has good reason to be confident that the citizens of a target state share the same preferences as citizens of her own state, she is likely to prefer to deal with an autocracy rather than a democracy. To do otherwise is inefficient from a political standpoint and simply lessens the likelihood that the leader of the intervening state will be able to provide enough public goods to her own winning coalition back home to ensure political survival. The autocrat can deliver the policy concessions that the democrat desires because policy performance and domestic public goods play a relatively small role in the autocrat's political survival. Thus, the autocrat—who needs money to provide the private-good rewards that keep his coalition members loyal—can credibly commit to adopting even an unpopular policy in exchange for, say, financial or military assistance. And the democratic leader makes her constituents happy by paying for the policy gains and so paying helps keep the democrat in office.

All of this is not to claim that the selfish preoccupations of democratic leaders are chiefly responsible for the low priority they place on the task of democratic state building. At bottom, a democratic incumbent's preoccupation with delivering policy benefits to core constituents—the

winning coalition—is less the product of personal ambition than a consequence of the way that democratic institutions in the intervening state are designed and the value that democratic voters assign to institution building abroad relative to other priorities. The electorate—“We the People”—is chiefly, if not solely, interested in preventing the reappearance of whatever target state’s policies provoked the intervention in the first place. Imagine, for example, the negative electoral consequences for an American president in building a democracy in a country where the voters choose a candidate who quickly implements policies protecting—even encouraging—the appropriation of American-owned property, groups funding foreign terrorism aimed at American interests, the drug trade, and nuclear proliferation. Voters are far more likely to reward a domestic candidate who helps put in office a foreign leader who adopts pro-American policies even if that person emerges from an electoral process that falls far short of the standards prevalent in most developed states. Consider, for example, how poor relations are between the United States and democratically elected Asif Ali Zardari, president of Pakistan, and how much better relations were with Pakistan’s earlier military dictatorship led by Gen. Pervez Musharraf (now deposed). Musharraf was willing to help in the war on terror; Zardari blows hot and cold, depending on how much money the United States gives his regime and on how strong militant, anti-American factions are in Pakistan. For Zardari, discouraging militants from overthrowing him looms much larger in his policy and pricing calculus than does currying favor with the US government. That’s not to the liking of American voters, so when push comes to shove, “We the People,” encourage our leaders to be tough on democratically elected leaders (with often rather flawed electoral processes), such as Zardari or Venezuela’s Hugo Chavez, whose policies are antithetical to ours. We cannot expect democratically chosen leaders anywhere, including in the United States, to ignore what their constituents tell them to do through the ballot box.

In circumstances such as these, it is difficult to argue that it is antidemocratic from the perspective of the majority of the US electorate (whether it is morally acceptable is a separate question) for the president to bypass the opportunity to help erect democratic institutions in the target state if doing so is unlikely to lead to policies that are compatible with the preferences of his electorate or that cost too much. Nor is this attitude likely to be restricted to American presidents. There is good reason to expect that,

whenever a leader of a democratic intervening state is uncertain about the policies that are likely to emerge from the installation of traditional democratic institutions in the target state, the leader will be attracted to another option that promises more certain and favorable outcomes. That option often involves supporting an autocrat who will back policies that the democratic intervener believes are consistent with its own preferences. In exchange for continued future policy reliability, the intervener offers a variety of goods ranging from military assistance and foreign aid to preferential trade treatment that the autocrat can use to increase his prospects of political survival (McGillivray and Smith, 2004, 2008). Under such circumstances, it is hardly surprising that the prospect of democratic institutions developing any time soon in target states is very poor. Once in office, autocratic leaders are primarily interested in consolidating their own wealth and power and those of their small circle of key supporters.

Does this mean that it is never in the interests of the leader of a democratic intervening state to construct democratic institutions? No, there are at least two circumstances in which it is in the democratic leader's interest to help another country become democratic. The first occurs when voters in the intervening state are willing to embrace the argument that the target state is so critical to their own country's long-term economic and strategic well-being that they should pay the high costs of remaining in the target country for a long time to supervise the development of stable democratic institutions. This was basically the situation in South Korea following the Korean War, when there was widespread bipartisan acceptance in the United States that South Korea would be a critical linchpin in the cold war years, especially in the Asian theater. In this case, US voters back home still placed a high priority on short-term stability, but the stakes were such that they were willing to forgo the more typical and lower-cost option of installing an autocratic agent. This was done, for example, following the third-party intervention (i.e., the military intervention by an outside nation in a dispute usually between internal rivals) in the Congo that resulted in the overthrow of Patrice Lumumba and the eventual rise to power of Mobutu Sese Seko.

The second situation in which a democratic intervener should be willing to install democratic institutions (and already alluded to) is when there is good reason to believe that the citizenry in the target state holds policy preferences that are closely aligned with the interests of the intervener's own constituency. In that case, the risk is small of elected officials in the target

state ending up pursuing policies that hurt the interests of the intervening state. The reinstallation of Charles DeGaulle as the leader of France following the end of World War II, although not strictly the result of an intervention in the traditional sense of the term, illustrates this kind of situation.

Both situations are likely to be relatively rare. In the first case, this is because of the financial and political costs it entails; a long-term occupation for the purposes of state building is inconsistent with the postcolonial notion of self-determination and is at best an exorbitantly expensive enterprise that can be justified only in isolated cases in which voters of the intervening state believe that their national security is at risk. The second situation is likely to be more common than the first, but it still is likely to be rare because leaders of states, like the citizens they govern, are generally risk averse and care more about the present than the future. Only rarely are they willing to wager their own political careers on the likelihood that voters in another state will support the policies that their own domestic winning coalition believes to be undesirable.

AUTOCRACIES AND NATION BUILDING

Does the fact that democratic interveners rarely choose to establish democratic institutions in the target country mean that their behavior is equivalent to that of autocrats? Certainly the disappointing results that have followed interventions by democracies in any number of Central American and African states seem to suggest this. Nevertheless, the different relative values that incumbents in autocracies and democracies place on public and private goods provide reasons for believing that, however poorly democracies do in this area, autocracies do no better and perhaps even worse; however, the differences in results will be hard to observe because democrats are likely to choose to intervene in states that look quite different from those in which autocrats are inclined to intervene. That is, as we will see, there are likely to be significant selection effects.

The winning-coalition logic suggests that the leader of an autocratic intervener is less interested than his democratic counterpart in ensuring that the target state pursues particular policy goals. Autocratic leaders are more interested in extracting rents in the form of taxes and hard resources that he can subsequently use to purchase the continued loyalty of his much smaller winning coalition. These resources will be easier to extract if the government

in the target state is also an autocracy. Any significant transfer of resources to the intervening state would undermine the ability of the leader of a democratic target state to provide the expensive public goods demanded by her own winning coalition. As a consequence, the democratic leader would face the prospect of being voted out of office at the next election.

The leader of an autocratic target state, like an autocratic intervener, has an easier task because his system is also set up to be rent-seeking, to extract resources from the many through corruption and turn them over to the few loyal coalition members. He simply need not answer to the masses that bear the burden of paying tribute. He can maintain a loyal, small winning coalition through the provision of private goods that collectively represent a total cost considerably less than the cost of the public goods that would be necessary to sustain the far larger winning coalition required by a modern mass democracy. As a consequence, an autocratic ruler in a state targeted by an intervener still has sufficient resources to satisfy the demands of the intervening state. All this assumes, of course, that a stable autocracy can be established in the target state in the first place. In general, the survival rates of new autocratic leaders in developing states are generally quite low even though the form of government persists for a long time. However, post-intervention, the odds of a new autocratic government surviving in the target state are good because the new regime is subsidized by the military power of the intervening state.

Finally, it is worth noting that, unlike the case of democratic interveners, there are no theoretical exceptions to the rule that autocratic interveners will establish autocratic states. No democratic administration that diverted a significant amount of public resources could survive politically against a competitor who ran on a platform of supplying more public goods to his coalition. Therefore, rent-seeking autocrats have every reason to prevent the installation of a democratic government in places in which autocrats intervene. This is the finding of Bueno de Mesquita and George Downs (2006); however, Easterly and colleagues (2008) find, after correcting for endogeneity in the selection of places to intervene, that the United States and the Soviet Union during the Cold War were equally detrimental to democratization.

THE UNITED NATIONS AND NATION BUILDING

What of the United Nations? It is commonly argued that governments should not intervene in other nations unilaterally but should rely on the United Nations instead. Structurally, the five permanent members of the UN Security Council (UNSC) (Britain, China, France, Russia and the United States—or the P5) are the decision makers in the United Nations most directly involved in authorizing an intervention. The UNSC possesses two characteristics that play an important role in determining where the United Nations intervenes and the effect that it is likely to have on target states: a unanimity decision rule and the fact that each of its members is an agent for a member state rather than an agent for the United Nations itself. The veto power that this structure creates, together with the agency interests of the representative of each state, operates to prevent the United Nations from intervening in a nation to serve the specific interests of a particular subset of the permanent members if that interest conflicts with the interests of any other P5 member. Thus, the United Nations rarely intervenes for the sole purpose of changing the policy of a target state that is viewed as undesirable by a democratic member or intervenes in a state for the purpose of generating rents for an autocratic state. This reality has the beneficial effect of preventing the United Nations from being exploited as a tool to serve the interests of one or two of the permanent members, but it also has several less happy implications that cause the United Nations to be a less-effective democratic nation builder than we might expect. For instance, the United Nations was powerless to thwart the American decision to intervene in Iraq in 2003, and it was powerless to stop Russia from intervening in the neighboring state of Georgia in 2008.

The general disinclination to permit the United Nations to serve as the agent of any P5 member and the refusal of any P5 member to have the United Nations operate in a way that runs counter to its own interests mean that most UN interventions take place outside the spheres of influence of the P5 states in states that do not play a critical role in the political economies of only some of the P5. This generally means that most UN interventions are concentrated in the poorest African and Asian states. An exception that proves the rule is the UN P5 agreement to intervene to defend Kuwait against Iraq's invasion in 1990. Oil-rich Kuwait delivered political economy benefits for all of the P5, not just some. Back in 1990, Russia was a much less important oil exporter than it is today. It is interesting to speculate whether today's Russia would support a proposal in the UNSC to wage war to reverse an invasion such as Iraq's into Kuwait. Reversing Iraq's invasion helped

prevent the price of crude oil from rising sharply in the early 1990s; indeed, the price fell following Iraq's ouster from Kuwait. That was beneficial for Russia then, when it was an importer of high quality crude; it would not be beneficial for Russia now that it is a major exporter of such oil. Indeed, throughout the Arab Spring, Russia has stalwartly opposed UN intervention in the Middle East. It vetoed or blocked proposed UNSC resolutions that would have allowed the United Nations a greater role in opposing Assad's government. The Russian's likewise condemned North Atlantic Treaty Organization's (NATO) intervention in Libya, an intervention that could not go through the United Nations because of Russian opposition.

A further implication of the P5 veto power is financial. Given the decision rules under which the P5 operate, UN activities will only rarely produce the high level of political-constituency benefits for the leaders of the P5 that they are able to obtain by providing the public goods demanded by voters in their home countries. These limited domestic-constituency benefits place a corresponding limit on how much the P5 (and other states) is willing to pay for UN activities and create a situation in which resources are a perennial problem for the international institution. It also forces the United Nations to continually grapple with the difficult choice of either doing what amounts to the bare minimum in the large number of countries that require assistance each year or of doing something more ambitious in only a small fraction of such states. Given the institution's mandate and composition, it is not surprising that the membership tends to choose to do little and to focus on peacekeeping and relief efforts in many states rather than laying the foundations for a durable democracy in one or two states.

Overall, this reasoning leads to the expectation that the selection effects generated by political economy interests, the need for consensus among the P5, and financial constraints are likely generally to prevent the United Nations from having a consistently positive effect on the spread of democracy (Gilligan and Stedman 2003).

WHAT DO WE EXPECT, AND WHAT DOES THE EVIDENCE SHOW?

To summarize our theorizing about nation building and focusing on domestic political calculations in their foreign policy context, we have the following

hypotheses regarding military intervention and nation building:

Hypothesis 1: Intervention by a democratic state will lead to no more and probably less democratic development in the target state than the counterfactual development of democracy in the absence of a military intervention.⁹

Hypothesis 2: Intervention by an autocratic state will lead to less democratic development in the target state than the counterfactual development of democracy in the absence of a military intervention.

Hypothesis 3: Intervention by the United Nations will lead to no more and possibly less democratic development in the target state than the counterfactual development of democracy in the absence of a military intervention.

These propositions paint an unhappy picture for those who are optimists about the prospects of spreading democracy around the world. They fly in the face of declarations such as those of Woodrow Wilson and George W. Bush at the beginning of this chapter. Of course, just because the hypotheses follow logically from a focus on how domestic politics shapes foreign policy doesn't mean that they are statements of how things actually are. To know how things are, we must look at the evidence.

Easterly and colleagues (2008) test propositions similar to the three listed here for the two superpowers of the Cold War era. They find that the United States—a democratic superpower—decreased the degree of democracy in targeted states by about 33 percent following its political, covert, or military intervention. They find the same effect to the same degree for the Soviet Union, a nondemocratic superpower. Bueno de Mesquita and Downs (2006) test these propositions as well but in the context of military interventions in countries that experienced civil war between 1946 and 2001. They look at institutional change in targeted countries five and ten years following intervention while controlling for baseline expected changes in democracy—that is, the pattern of institutional change in countries that were not experiencing intervention but that were otherwise comparable to countries that did. Their examination of a large body of data regarding military interventions strongly supports the hypotheses that democracy is rarely achieved at the end of the barrel of a gun or in response to the influx of dollar bills. [Table 14.1](#) shows the effects of different types of interveners on the

prospects of democratic change in target countries a decade later.

As shown in [table 14.1](#), autocrats have little impact on governance in target states, whereas the United Nations diminishes democracy, as measured by the Polity Democracy-Autocracy Index and by the selectorate theory's indicator of coalition size. Likewise, democracies reduce the degree of democracy in states targeted for intervention by 4 percent to 5 percent. When democracies intervene along with the United Nations, the impact is even worse, leading to an 11 percent decline in democracy in the targeted regimes. The figures are similar if we rely on coalition size rather than the Polity Index.

TABLE 14.1 Change in Democracy Ten Years after a Military Intervention Compared to Cases without an Intervention (%)

Intervener	Polity Democracy Percentage Change ^a	Aristocracy Index Predicted Coalition Size Change
No intervention	+7.45	+2.42
Autocratic country	−0.01 (<i>p</i> < 0.01)	+2.42 (n.s.)
United Nations	−6.39 (<i>p</i> < 0.05)	−3.82 (<i>p</i> < 0.10)
Democratic country	−4.55 (<i>p</i> < 0.01)	−4.14 (<i>p</i> < 0.05)
United States	+13.01 (<i>p</i> < 0.05)	+4.82 (n.s.)
United Nations + democratic country	−10.93 (<i>p</i> < 0.01)	−10.38 (<i>p</i> < 0.01)
United Nations + United States	+6.63 (n.s.)	−1.41 (n.s.)

Source: Bruce Bueno de Mesquita and George W. Downs. 2006. “Intervention and Democracy.” *International Organization*, 60, 3 (Summer), p. 646. © Cambridge University Press 2006. Reprinted with permission.

Notes: All predicted percentage changes include the ten-year positive gains expected due to the secular trend in democratization captured by the variable year—that is, the baseline movement toward democracy over time in states that did not experience intervention. Percentages are rounded to the nearest tenth of a percent. Significance evaluates whether the effect of the intervention on democratic change is different from the effect of no intervention on democratic change. n.s. = not significant.

a. The Polity Index ranges from +10 for the most democratic states to −10 for the most autocratic states, but for the analysis presented here it has been transformed (without any

change in meaning) to range between 0 (equivalent to -10) and 100 (equivalent to $+10$). This makes the interpretation easier because the values in the table now refer to the percentage change in the Polity score. In typical treatments, a country is not regarded as democratic unless its Polity Index value is at least 6. On the 0 to 100 scale used here, 6 is equivalent to a value of 80.

However, [table 14.1](#) does contain one surprise. When the United States is the intervener, it apparently increases democracy by 13 percent (based on Polity's indicator), contrary to expectation. But this positive finding for the United States is misleading. Recall that we expect democratic interveners to be motivated to create regimes in the target state that possess the trappings but not the substance of liberal democracy (because creating a true democracy is too expensive). What this means in any given instance depends on the target's starting point. This raises the possibility that the difference between the record for the United States and for other democratic interveners is the consequence of the selection of the target states. We have already suggested that wealthy states are more likely to engage in sustained interventions in particularly difficult but strategically valuable spots around the world. The United States is the world's wealthiest state. If the United States intervenes in states that are initially more autocratic than those in which other democracies intervene, then it would have less opportunity to reduce the level of democracy that presently exists and this could explain the difference in the average levels of democracy eventually achieved by their respective target states.

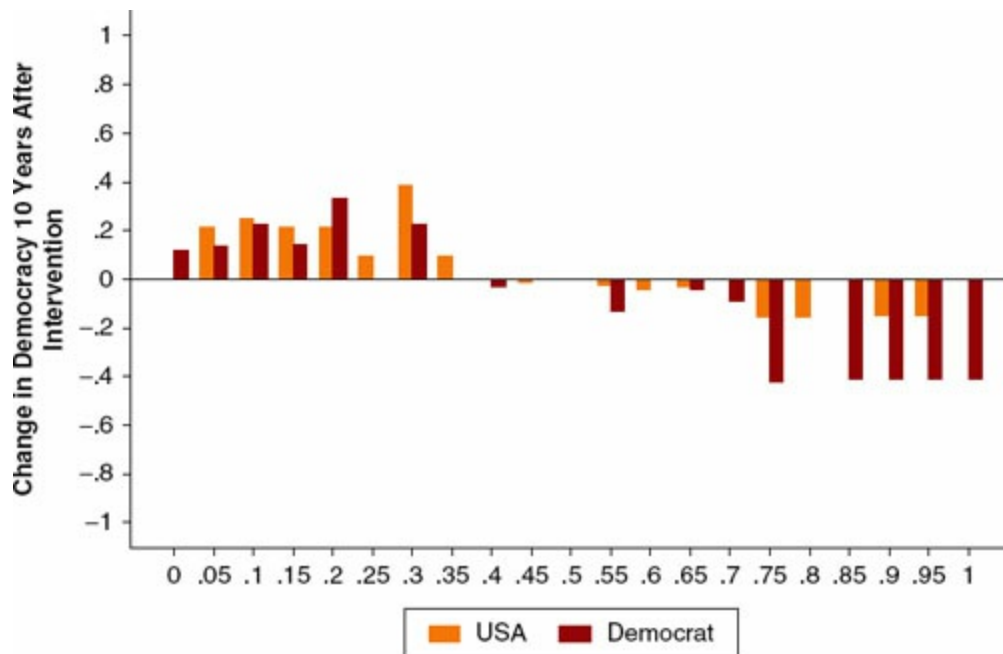
To learn whether this was the case, let's consider the average level of democracy in targeted states at the time of the intervention and then again ten years later, and let's divide the targets of intervention by whether the intervener was the United States or was some other democracy. Doing so reveals a huge selection effect. The average democracy scores (based either on the Polity Index or on coalition size) are significantly different for these two sets of targets. The median Polity Index for countries in which the United States was the intervener is only -3 (0.35 on the normalized scale from 0 to 1); that is, the United States intervenes in states that are strongly tilted to the autocratic side of the scale. In contrast, the median Polity Index for countries in which other democracies intervene is $+4$ (0.70 on the normalized scale), tilted strongly to the democratic side. This suggests that the United States has less need on average to reduce democracy in its targets to obtain policy compliance than do other intervening democracies and has comparatively

more incentive to increase the symbolic trappings of democracy that are preferred (if weakly) by its winning coalition. When we correct for this, ten years after an intervention the degree of democracy in US target states and in target states of other democracies is statistically the same. All democratic interveners tend to restrict the extent of their targets' democratic freedoms to comparable levels (so that the level of democracy becomes symbolic but without substance) so that the interveners' policies will be carried out.

This pattern can be seen in [figure 14.3](#), which compares the change in democracy ten years after an intervention when the intervener is a democracy other than the United States (the dark bars) and the change when the intervener is the United States (the white bars). The figure is a little complicated, so let's go through it slowly. The vertical axis shows the change in the degree of democracy in target countries ten years after intervention. The horizontal axis shows the degree of democracy for targeted states at the time of the military intervention. So, positive scores on the vertical axis indicate an increase in democracy from the starting level and negative scores indicate a decrease in democracy. As the figure shows, whether the intervener was the United States or another democracy, targets that start in the autocratic range on the horizontal axis (scores less than 0.5) increase their degree of democracy ten years later. They are pushed modestly upward so that they end up with the symbolic trapping of democracy but not with the real thing. Targets starting in the more democratic range of the horizontal scale (scores above 0.5) tend to be pushed downward, becoming less democratic and more autocratic, as denoted by their all falling into the negative range on the vertical axis. They, like the targets that were pushed upward, end up with only the symbolic trappings of democracy.

The absolute scores of the democratic target states are also revealing. The standard cutoff point in the literature for a democracy based on the Polity Index is 6 (on the -10 to 10 scale). Contrast this with the mean democracy scores ten years after a democratic intervention, which are only 0.8 for US targets and 1.0 for the targets of other democracies on the same Polity scale. This is well below the standard threshold for defining democracy. These two scores are essentially equal, and they are equivalent to the governance in such countries as Zimbabwe and Kyrgyzstan in 2009—both a far cry from democracy. So, in the end, all democratic interveners, on average, leave their targeted states looking alike, and the results do not make a pretty picture.

FIGURE 14.3 All Democratic Interveners Foster the Symbolic Trappings of Democracy in Target States



Source: Bruce Bueno de Mesquita and George W. Downs. 2006. "Intervention and Democracy." *International Organization*, 60, 3 (Summer), p. 646. © Cambridge University Press 2006. Reprinted with permission.

The statistical evidence makes the general nature of the pattern of failed democratization clear. To see how this works in a bit more focused detail, let's take a look at a few case studies of apparent success and failure in efforts to engage in nation building. These may put a bit more flesh and bone on our discussion of why democratization is so rarely achieved through outside interference.

Germany and Japan: Seemingly Hard Cases

Almost as soon as anyone proposes a policy to create democratic polities elsewhere, the post-World War II conversions of Nazi Germany and Imperial Japan are brought forth as exemplars of how this lofty goal can be attained. Newt Gingrich, the former Speaker of the House, a historian by training, has argued, "The United States has a remarkable history of helping countries grow into democracy" (Gingrich 2003). He goes on to mention specifically

Germany and Japan (and the Republic of Korea) as evidence for America's "remarkable history of helping countries grow into democracy." Yet even these exemplars of democratization—each following a massive, bloody, and costly war—enforce rather than counter the strategic approach's cautionary tale.

Germany's Third Reich surrendered unconditionally to the Allies in 1945. Military occupation ensued immediately, along with an Allies-selected and imposed civilian government. There was no competitive, militarily unsupervised, free national election in what came to be known as West Germany until 1955, a decade after the overthrow of the Nazi regime. In the interim, the Allied powers wrote Germany's constitution and helped create its electoral system. The electoral rules imposed on Germany were rather remarkable and, therefore, worthy of close scrutiny.

We might have expected the Allies to construct an electoral system similar to that in operation in the United States or Britain, or perhaps France at the time, although France, unlike the United States and United Kingdom, had been conquered in World War II and so was itself in the process of constructing its own new electoral system. The American system was much as it is today, as was also true of the British system. But the rules imposed on Germany resembled not at all the voting rules used for elections in the United States or United Kingdom; nor did the rules resemble some complex compromise of their differences. Both the United States and Britain relied on first-past-the-post elections. This is a system that strongly encourages two-party competition by rewarding the candidate with a plurality of votes; in this system, the winner takes all that is up for grabs in the election. Germany, in contrast, was given a system with an extreme form of proportional representation that virtually assures a multiparty system that relies on coalition governments. This could hardly be justified on historical grounds. It is true that Weimar Germany produced a multiparty electoral system, but that was the system that made it possible for Hitler's National Socialist Workers' Party to seize control of the Reichstag and the chancellorship, and presumably the Allies had in mind the prevention of a recurrence of the twelve-year-long Thousand Year Reich.

The extreme form of proportional representation imposed by the Allies was designed, of course, to prevent a repetition of that unhappy earlier German experience, but that was surely not the sole motivation. The German electoral system ensured that coalition governments would have to form; that

no party could control policy; and that, therefore, the central government would be weak and malleable. And weak and malleable it was, at least as viewed from the perspective of the occupying powers. They had an interest in the creation of a German government that was compliant with their foreign policy wishes and national security concerns, especially with regard to their policy toward the Soviet Union and its then-emerging bloc of satellite countries in the Warsaw Pact. Indeed, the political system ensured just such an outcome.

Although Germany today is certainly a democracy, it was a quarter of a century after World War II before a German chancellor adopted even a modestly independent foreign policy rather than complying precisely with the wishes of the occupying powers, the victors in the war. No West German chancellor deviated from the foreign policies advocated by NATO and especially the United States until Willy Brandt introduced the idea of Ostpolitik in the 1970s. His daring departure was merely to suggest that Germany ought to pursue trade and other relations leading to rapprochement with its Eastern European neighbors—that is, Germany’s natural market. He was, after all, merely proposing that Germany follow the basic gravity model of trade which we discussed in [chapter 10](#). Brandt’s independent foreign policy irritated the US leadership (and many German conservatives). It sat somewhat better with Britain, but then Brandt complied with Britain’s desire at that time to enter the European Community, so the United Kingdom had a reward that was not proffered to the US administration. Brandt’s independent approach to Eastern Europe was anathema to an American administration keen to gain every possible advantage during the cold war. Whether by happenstance or otherwise, Brandt’s political ascendancy was not long-lived. By 1974, faced with a spy scandal involving one of his closest aids, Brandt was forced from office.

Japan’s story, like Germany’s, is one that involves the construction of a constitution that promoted policy compliance with American foreign interests. In Japan, which was accustomed to consensual politics, the American-written constitution greatly favored representation in the diet by the relatively thinly populated, rural agricultural constituencies. These constituencies were considerably more conservative than those in urban areas, where there were many more socialist and communist sympathizers. Japan had a one-party government, dominated for all but eighteen months out of more than the first half century after free elections were introduced in 1955

by the Liberal Democratic Party (LDP). LDP dominance only now appears to be breaking down into a more competitive party system. The LDP governments steadfastly supported American security policy while often proving independent-minded when it came to trade policy.

Although Japan is certainly a free society, it is noteworthy that, among such societies, Japan's press is relatively controlled. Only media belonging to press clubs gain access to government sources and, in exchange, create homogeneous press accounts based on government representations of the facts. In addition, among free societies, as classified by Freedom House, Japan is one of the few wealthy countries that fails to achieve top scores for civil liberties. So this exemplar of democratization is itself limited in the extent to which opposition voices are heard and reflected in the media, in daily discourse, and in the highest circles of government. Postwar Japan has largely been a one-party state. Even during a decade of economic downturn and deflation, creating pain that was felt by almost every Japanese citizen, the LDP managed to maintain its control over the government. It is worth noting that India and Mexico were both criticized for many years for being one-party democracies, while Japan has largely escaped this critique. That too may be because Japan, unlike Mexico or India during their periods of one-party dominance, steadfastly complied with America's foreign policy security interests.

The Usual Suspects: Iran, Congo, and Other Failed Cases

Whatever the successes are regarding Germany and Japan (or the Republic of Korea, for that matter), the United States and many of its democratic allies have a checkered record when it comes to other opportunities to promote democracy. We cannot help but question the "remarkable history" of democracy promotion attributed to the post-World War II United States.

Iran's experience is an exemplar of democracies putting their own interests ahead of democratization elsewhere. Mohammad Mossadegh was the democratically chosen prime minister of Iran from 1951 until his overthrow in a British- and CIA-planned coup in 1953. Although he spent much of his life working to establish democracy in Iran, as prime minister Mossadegh irritated the United States and the United Kingdom by approving the nationalization of oil fields owned by Aramco (loosely, today's British

Petroleum). Despite the British and American fervor for democracy, domestic policy concerns took precedent, resulting in Mossadegh's overthrow and his replacement by the absolute rule of Shah Mohammad Reza Pahlavi. The shah (the hereditary monarch) provided no gloss of democracy, but he certainly was compliant with the policy wishes of the US and the UK governments.

The shah was overthrown in 1979 when he was known to be suffering from terminal cancer, a consideration of some significance in the selectorate theory. The new government, led by Ayatollah Ruhollah Khomeini, established a theocratic quasi-democracy. Iran, under the ayatollahs, maintains competitive, multiparty elections. There are broad enfranchisement rules that allow even fifteen-year-olds to vote (whereas the US Constitution provides voting rights for those eighteen or older). Incumbents in Iran—even for the highest office—are often defeated at the polls and peacefully cede power to the electoral victors, as noted earlier. There are, to be sure, serious limitations in Iran's nominal democracy. Ultimate decision-making power rests with a small number of self-selected religious leaders rather than with the voters, but even so, Iran is unquestionably more democratic under the ayatollahs than it was under the shah. The United States has not praised this progress toward democracy but, rather, has been severely critical of the Iranian regime. Certainly, Iran's leaders, starting with the seizure of the American embassy in Tehran on November 4, 1979, have maintained an unfriendly posture toward the United States and the West in general. But that is the point. The US government has chosen to shape its relations with Iran based on that country's policy choices rather than on the country's political system or progress toward democracy. Faced with a choice between Iran's policy compliance (as under the shah) without democracy and some progress toward democracy without policy compliance (as under the ayatollahs), the United States and many other democratic states have chosen compliance. And that is what the leaders of these democratic states must do to be true to their democratic obligations to their constituents who elected them to advance the policy interests of those very constituents.

Let us turn now to the Democratic Republic of the Congo.¹⁰ In June 1960, Patrice Lumumba became the Congo's first freely elected prime minister. He was murdered on January 17, 1961, just a half year later. Lumumba ran into difficulty with Western democracies because of the policies he adopted. He spoke out vehemently against the years of Belgian rule over the Congo, and he sought Soviet assistance in his efforts to remove Belgian troops and

diplomats and in his fight against the secessionist movement in Katanga Province led by Moïse Tshombe. The massive bulk of the evidence today points to US and Belgian complicity in Lumumba's murder.

Mobutu Sese Seko assumed power in 1965 and quickly eliminated competitive elections and most of his political opponents. He received massive foreign economic assistance, especially from the United States and Belgium; unlike Lumumba, he was prepared to be anti-Soviet. Apparently, Mobutu stole so much of this economic assistance that the word kleptocracy, meaning a form of government based on the leadership's stealing from the state, was coined to describe his form of rule. As they did in the shah's Iran, the Western powers supported a government in the Congo that complied with their foreign policy interests at the expense of democracy.

Neither Iran nor the Congo is an exceptional case. The Western democracies were united in their opposition to a democratically elected fundamentalist Islamic government in Algeria in 1992, supporting instead the Algerian military's refusal to let the elected government come to power. Iraq's fledgling democracy, as we have seen, is subjected to intense American pressure to select policy-compliant leaders even when the will of the voters' points in other directions. The political leaders in the United States show no eagerness to work with democratically elected governments in Latin America or elsewhere when their policies run counter to American interests, as in Venezuela. And the same has largely been true for Europe's democracies as well. In each such case, democratically elected leaders are doing what they were elected to do—delivering policies (including policy compliance from other states when possible) that benefit their constituents, even if, in doing so, they stymie democratization elsewhere.

SUMMARY

Democracy, as demonstrated by the democratic peace, can be a pacifying influence in the world. True, democracies are prepared to fight against nondemocratic regimes, but they rarely, if ever, fight against each other. This is not because of some great democratic virtue so much as the equilibrium strategic behavior of survival-oriented political leaders who must answer to a large winning coalition. Still, it is encouraging to realize that the world would probably be a more pacific place if it were more universally democratic. Indeed, the spread of democracy through internal national choices and

revolutions, especially since the late 1980s, has been accompanied by a great diminution in the incidence of interstate wars. As encouraging as the democratic peace is, it also carries within its logic reason to be skeptical that democratization is likely to be promoted by democratic governments.

Although the leaders of states that intervene in other states frequently assert that the democratization of the target states is one of their main goals, we have seen lots of evidence suggesting that this goal is rarely achieved. More often than not, the leaders of intervening states are faced with a choice between trying to satisfy the policy interests of their own constituents to remain in office and promoting the democratic aspirations of the citizens of targeted states. Because the citizens in a transformed democratic target state are likely to have different policy priorities than those of the intervener's own winning coalition back home, the intervening state will tend to pass up the opportunity to establish a liberal democracy in favor of establishing an autocratic or rigged-election polity that it expects will be more willing to implement the policies it desires. As a result, intervention does little to promote democracy; instead, it often leads to its erosion and the substitution of largely symbolic reforms for the real thing.

This outcome is not particularly surprising in the case of autocratic interveners, but in the case of democratic interveners, many are likely to find it disappointing. Although it is tempting to blame this outcome on a failure of the quality of leadership that exists in the intervening democratic countries, selectorate theory suggests that it is more indicative of the constraint of democratic institutions themselves and the nature of democratic representation. Democratic leaders are constitutionally charged with being the agents of their domestic constituencies and their voters' policy priorities are rarely identical with those of the citizens of target states. The fault, if there is one, lies less in the motives of the democratic executive than in the policy priorities of democratic voters and the incentives created by democratic institutions.

KEY TERMS

Abraham Lincoln

Polity Index

puppet governments
third-party interventions

Answers:

1. d. all of the above. Democracies better equip their military and especially provide better protective armor for their soldiers than do autocracies. Democracies are more reluctant to fight when the ensuing war is perceived to have a relatively low probability of success than are autocrats and democrats are more reluctant to gamble on being ousted from audience if a war goes badly than are autocrats.
2. c. Democracies fight with each other only very, very rarely. They fight much more often with autocrats. Autocrats are less selective about their wars, fighting with other autocrats and also with democrats.
3. Democracies rarely promote meaningful democratic reform in countries that they intervene. Intervening democracies prefer policy compliance in the post-intervention period over democratization if democratization also means the pursuit of policies contrary to what the intervener's domestic constituents want.
4. f. The differing impact on incentives under different governing institutions and the associated risks and rewards to leaders for successful or unsuccessful wars are what appear to shape the democratic peace.

¹ For the full text of Woodrow Wilson's 1917 speech, see www.classbrain.com/artteenst/publish/article_86.shtml.

² For the full text of George W. Bush's second inaugural address, see www.msnbc.msn.com/id/6848112/.

³ See Marshall and Jaggers (2007). The Polity Index ranges between +10 for the most democratic governments and -10 for the most autocratic governments.

⁴ Those who want to see a full mathematical proof of these claims can do so in the original publications from which the argument is drawn (Bueno de Mesquita et al. 1999, 2003).

⁵ Much of the discussion that follows is drawn from Bueno de Mesquita and Downs (2006).

⁶ Nincic (1997) attempts to directly test the impact of presidential efforts to generate public support for the goals of promoting democracy and human rights on the use of force, but the results are not significant.

⁷ Military interventions generally are not pure types involving only one of the five

justifications for intervention. Therefore, the examples offered for each should be read as only illustrative of what the primary motivation was in the specific case. It is noteworthy that after the first two items on the list it becomes more difficult to identify cases for which the listed motivation seems primary.

⁸ An extended discussion of the role of cost in nation building and its implications can be found in Etzioni (2004).

⁹ The estimation of the counterfactual of which level of democracy would have evolved in the absence of intervention plays a major role in the analysis to follow.

¹⁰ From 1971 to 1997, this country was called Zaire.

Appendix

Modern Political Economic History and International Politics

OVERVIEW

- What has occurred in the past and what will in the future are not due to happenstance but, rather, depend on choices about alternative paths that can be taken.
- To understand international affairs, we need to know the facts of history and we need theories to organize these facts.
- A common background in essential facts from the past 500 years will provide a common ground to explore the present and future.
- The past several hundred years of history provide a natural experiment in the alternative forms of governance that shape our world.

The events of history are sometimes described as a sequence of chance (path dependent) developments. Such a view leads to the memorization of key dates and names rather than an appreciation of how intertwined the events of history really are. If we think of historical developments and change as arising by chance, then we have no reason to believe that lessons for the future can be learned from a study of the past. This book rejects that viewpoint and maintains that lessons can be learned from history. Although we can readily imagine alternative courses that history might have taken, we should not infer that the actual flow of events was due to happenstance in the past or that it is likely to be due to happenstance in the future. What actually happened is largely dependent on the anticipated consequences of alternative

courses of action that were not chosen. Why, for example, did the United States launch a war on terror after Al Qaeda's attacks on September 11, 2001? Because the leaders of the American government thought that the consequences of not retaliating would be worse than the consequences of retaliating. These alternative courses—sometimes called counterfactual histories—are what did not happen. History can teach us lessons for the future by allowing us to understand both why particular choices were made and why other choices, leading to alternative histories, were not made. To examine decisions in an informed way, we need to know something about what decision makers knew or believed at the time they made their choices.



Armed conflict is as much an element of international relations as is diplomacy, and the two are often inextricably entwined. A series of treaties and secret pacts among the powers of Europe catapulted the continent into World War I. By the time the United States entered on the side of Great Britain and its allies in 1917, the countries of Europe had fought themselves to a stalemate of attrition that would earn the conflict the title “the war to end all wars.”

The distinction between what is known when a decision is made and what is known later is an important element in judging the past and in the evaluation of arguments about the future. Decisions can only be made before their consequences are known, so knowing the prior flow of events and its causes often is instrumental in shaping the views of decision makers about what to do next. Of course, using information that is known afterward when evaluating the decisions that leaders made is both unfair and misleading when developing explanations or causal arguments. Historians and political scientists studying international relations commonly confuse what was known before the fact with what is known after the fact. For example, many scholars who are interested in determining the causes of large-scale, destructive wars such as World War I focus their research only on big wars (Organski and Kugler 1980; Gilpin 1981; Kennedy 1987). Yet the decision makers of the time did not know they were entering into an extraordinarily long, widespread, and costly war. Had they known how devastating these wars would be, at least some of them probably would have been more inclined to settle their differences without resorting to violence and its attendant costs. For example, we know now that the German invasion of Poland on September 1, 1939, led to World War II. But the leaders of the time did not know that; in fact, contemporary newspaper accounts referred to the invasion as the “German-Polish War.”¹

The making of foreign policy decisions, the shaping of international politics, and our understanding of arguments and evidence depend on two basic but fundamentally different components: (1) facts and (2) theoretical perspective. We already explored the tools for evaluating facts in light of logic and evidence in the fourteen chapters of this book. This appendix looks at some important facts of history to establish a basic shared knowledge. I hope you are reading the appendix ahead of or in tandem with the rest of the book. It is a good place to return to regularly to help put ideas in their broad historical context.

I begin with essential facts about the political and economic history of the past nearly 600 years. Of course, a short appendix can offer only a rudimentary review of history. Therefore, I draw attention especially to the development of different forms of governance over the centuries and to the conflicts that were crucial in determining which sets of ideas about government institutions prevailed and which fell by the wayside. Naturally, there are many other ways to retell the history of the centuries I cover here, so

even in choosing how to relate facts, we must already impose guiding assumptions. Those who want a more in-depth or a different treatment should consult any of the numerous excellent book-length accounts of world history. A suggested list of such readings can be found at the website for this book: <http://college.cqpress.com/bdm>.

THE FIFTEENTH CENTURY

The years 1452 and 1453 produced a host of important developments. For example, 1453 marked the collapse of the Byzantine Empire; this successor to the ancient Roman Empire fell when Islamic Ottoman Turkey took control of Constantinople. For many historians, the end of the Byzantine Empire also marks the end of the Middle Ages and the beginning of the modern era. The argument that 1453 ends the Middle Ages is closely tied to the economic consequences of the fall of Constantinople and, incidentally, the implications of those economic consequences for Columbus's later voyages of discovery. The victory by the Turks meant that they could keep European traders from directly exploiting land routes to the spice trade with India and beyond. The increased costs and risks of the overland routes to Asia contributed to the search by the European powers for a sea route to India, China, and Japan. Thus, Spain's decision to back Columbus in his quest for such a path to Asian trade followed directly from the heightened costs of overland trade brought about by the defeat of the Byzantine Empire by the Ottoman Turks. Spain was motivated by Ferdinand and Isabella's interest in securing their personal hold on power and by their desire to enrich and strengthen themselves by enriching and strengthening their kingdom.

Map A.1 Holy Roman, Ottoman, and Russian Empires, 1400s–1500s



Competition for control of Europe is evident in the expansion of the Holy Roman, Ottoman, and Russian Empires during the 1400s and 1500s.

Other events in Europe at the time set the stage for future developments and conflicts over the next several centuries and even into our own time. Germany—then a loose confederation of principalities—had been ruled by the Habsburg dynasty since 1273. Habsburg rule, however, took a great leap forward in power when Frederick III became the holy Roman emperor in 1452. The Holy Roman Empire was probably the most powerful secular authority in Europe at the time, with only the Catholic Church being at least as powerful. The Habsburgs maintained their control over the Holy Roman Empire until 1806 when it ceased to exist. In the intervening centuries, German political, cultural, and military influence waned and waxed, helping to set the stage for German ambitions in the First and Second World Wars.

Perhaps even contemporary Germany's great influence within the European Union today can be traced back to Frederick III in the fifteenth century.

The years 1452 and 1453, then, witnessed the emergence of critical new powers in northern Europe and the development of southeastern Europe's ties to Asia through Turkey. Still other events were unfolding that helped redefine the political map and interests of Europe's leading powers. In the West, England and France finally resolved the Hundred Years' War (1337–1453). At the war's outset, England had held vast territories in what today is called France. English kings claimed the French throne just as French kings—harking back to France's William, Duke of Normandy, who as William the Conqueror took control of England in 1066 and became its ruler—made claims on the English crown. The French emerged victorious from the Hundred Years' War, expelling England from almost all of its continental territories and helping to solidify France's borders along lines close to those of modern France. The French victory also helped define the French nationality and nationalism, a process already under way by 1302, when the French king, Philip the Fair, launched a war against Pope Boniface VIII and called on the people of France to die for their country (*pro patria mori*). Similar consequences for England emerged from the Hundred Years' War; in the process of losing the war, modern England began to take form.

None expressed the profound change in national self-awareness in England better than did William Shakespeare in writing two centuries later about Henry V and the English success in the Battle of Agincourt ([1415] 2002):

This day is called the feast of Crispian: He that outlives this day, and comes safe home, Will stand a-tiptoe when this day is named, And rouse him at the name of Crispian.... And gentlemen in England now a-bed Shall think themselves accursed they were not here, And hold their manhoods cheap whiles any speaks That fought with us upon Saint Crispin's day. (Henry V, Act IV, Scene 3, lines 41–68)

The Hundred Years' War secured English national consciousness and the gradual development of an English culture that is distinctly different from that of France. Although England was already well on the way to establishing its common law and parliamentary government, 1453 and its aftermath mark a crucial turning point in English and French history. The emerging political institutions in England served to strengthen the Crown both at the expense of

external interests, especially the Catholic Church and internal rivals, most notably the wealthiest earls and dukes. These institutional developments were, in other words, the product not of chance ideas but of strategic maneuvers by England's king (and France's as well) to make secure his own political position.

In the northeastern part of Europe, equally momentous events unfolded only a quarter of a century later. Modern Russia was born in 1480 when Ivan III, having defeated Asia's Mongols (the heirs of Genghis Khan), created an independent Russian state. His successor, Ivan the Terrible, then set about building a Russian empire that made the country a major competitor for political influence throughout Europe, a position Russia maintains to this day.

Halfway across the world, other pivotal events were taking place. Developments in modern-day Mexico in 1430 helped set the stage for some of the most significant events in the sixteenth century. During the eleventh and twelfth centuries, the then nomadic Aztecs encountered and eventually overtook the Toltec civilization in the Valley of Mexico. The Aztecs elected their first king, Tenoch, in 1349. He ruled for more than forty years. During this time, control of Mexico was divided among numerous competing tribes, but in 1430 a league of three Aztec cities formed—Tenochtitlan, Texcoco, and Tlacopén—to build an empire. The three-city league fought wars with its political rivals and fairly quickly established Aztec control over an empire that ranged from the Pacific Ocean to the Gulf of Mexico. In less than a century, this empire and the imperial pursuits of Spain clashed, leading to the conquest of Mexico.

As the fifteenth century drew to a close, Spain was united, schisms that had divided the papacy appeared to be resolved, England and France were emerging from decades of war, and European monarchs seemed poised to expand their influence throughout the New World. Yet other events were taking place that challenged the fundamental world order inherited at the turn of the century.

THE SIXTEENTH CENTURY

The 1500s witnessed the flowering of the Protestant Reformation with its attendant implications for the secularization of Europe. Habsburg control over the Holy Roman Empire provided a crucial backdrop for the success of the Protestant Reformation. Martin Luther posted his ninety-five theses in

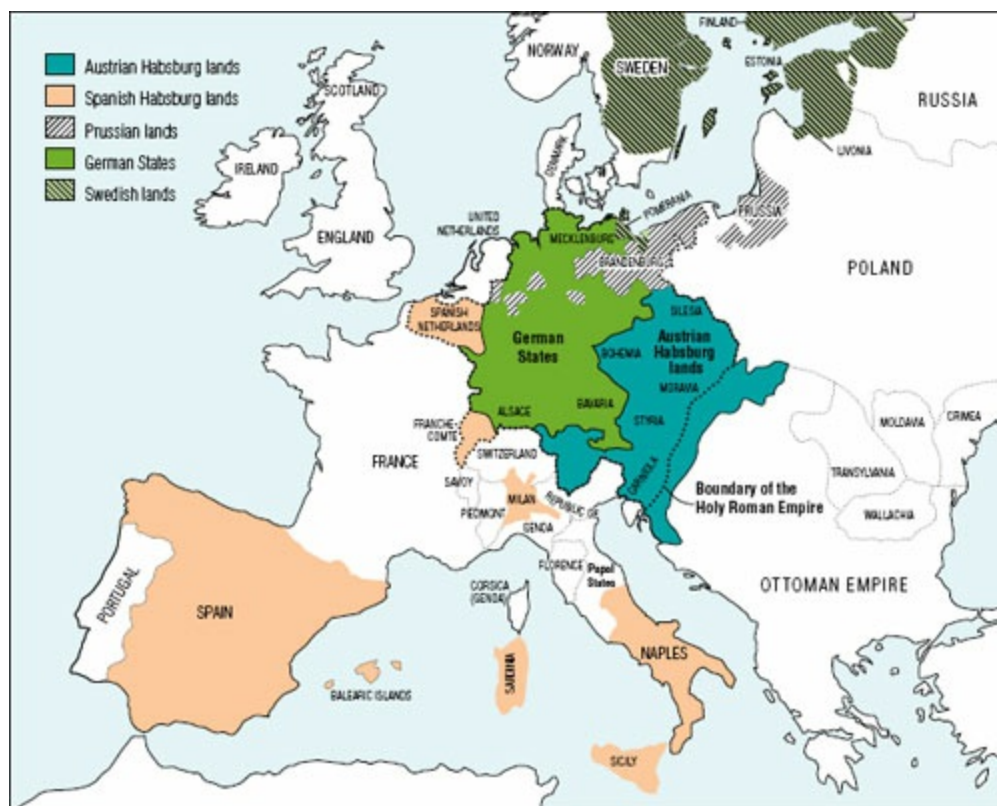
1517, challenging the legitimacy of the Catholic Church's religious and political hegemony in Europe. The monarchs of northern Europe saw this and a slew of other anti-church protests and declarations as a political opportunity to undermine the pope's authority and to weaken the influence of the Catholic Church as a competitor for political influence. Protests against the church leadership's apparent venality and corruption served the political interests of the monarchs. The Reformation gave them an opportunity to foster loyalty both by promoting nationalism and by encouraging new Protestant religions as an alternative to Roman Catholicism. By fostering the legitimacy of Protestant religious principles, monarchs could deprive the church of the power inherent in its ability to excommunicate individuals or to deprive whole communities of the sacraments (through interdiction). Prior to the Protestant Reformation, Western Europeans who failed to subscribe to the teachings of Roman Catholicism exposed themselves to severe prejudice and extreme risks. Earlier efforts to reform the Catholic hierarchy had met with disaster, as experienced, for instance, by the monk Girolamo Savonarola, who was burned at the stake on May 23, 1498, for condemning church practices and the lavish lifestyle of the church's leaders.

What Savonarola could not do successfully from his base in Florence—right in the papacy's backyard—Martin Luther and others did from their more remote outposts in northern Europe. With the advent of the Reformation, those who no longer subscribed to Catholicism did not need the church hierarchy to serve as intermediaries between them and God. People could practice new forms of Christianity, knowing that their leaders supported these practices, and in this way the church was weakened. The changing perception of the Catholic Church played an important part in increasing the apparent power and influence of secular political institutions throughout Europe. Because many people no longer believed that their salvation depended on the church's approval or on confession to a Catholic priest, local rulers were strengthened in their ability to assert sovereign authority. Thus, changes in beliefs resulted in fundamental changes in the authority of states as opposed to the supernational church.

The Catholic leadership, of course, did not stand by idly while its power was eroded. A counterreformation was launched that was part reform and part oppression of the Protestant dissenters. By the seventeenth century, these political-religious disputes in Europe came to a head, culminating in the Thirty Years' War (1618–1648).

While the struggle for national emergence and sovereignty continued in sixteenth-century Europe, Suleiman the Magnificent (1520–1566) built on the successes of the Ottomans in the previous century. He turned Ottoman Turkey into the Ottoman Empire, exercising significant political and economic control from Asia Minor to North Africa and spreading into Europe. In the last great battle in Europe between Islamic and Christian adherents until our own time, Suleiman laid siege to Vienna in 1529. The Ottoman Empire was defeated, and the Ottoman Empire and the influence of Islam were gradually forced to retreat from most of Europe. (A similar clash in Europe between Christians and Muslims did not arise again until the end of the Cold War, when the collapse of the Soviet Union led Yugoslavia to unravel into its constituent parts, producing wars in Bosnia and Kosovo—wars that involved disputes between European Christians and Muslims. The current conflict between Muslim extremists and the United States and its allies can be seen in a similar light.)²

Map A.2 Europe in 1648



The Treaty of Westphalia, which marked the end of the Thirty Years' War and an important step in the evolution of sovereignty, redrew the map of Europe and redefined the norms and rules of international law that states were expected to obey. The influence of the Catholic Church in political affairs was greatly diminished, and new alignments emerged. It is interesting to note that no defeated monarch was overthrown by the victors in the Thirty Years' War.

The search for a sea route from Europe to Asia in the fifteenth century had failed, but in the process of searching, Columbus and others after him made European leaders aware of the vast resources of the Americas. In 1518, Hernán Cortés fought and defeated the Aztecs in his quest for wealth for himself and his Spanish sovereign. Francisco Pizarro had much the same motivations when he overthrew the Inca Empire, in what is today Peru, in 1533. By the last two decades of the sixteenth century, tremendous amounts of wealth were being extracted from the Americas and shipped to Europe. Piracy became a critical source of private and national wealth. Indeed, Spain was losing a substantial portion of the wealth it took from the Americas because of theft on the high seas by English pirates (called privateers), many of whom were handsomely rewarded by the English Crown. This led in 1588 to the Spanish monarch's decision to mount a fierce naval armada designed to destroy the English threat at sea. The Spanish Armada, however, was soundly defeated by a combination of bad weather and the more mobile, faster ships of England, marking the decline of Spain and the ascent of England as a great naval power.

By the close of the 1500s, Spain and Portugal, the two great naval powers of that century, were in decline. Islam had been turned back from much of Europe (though its major defeat at the gates of Vienna remained nearly a century into the future), although it had secured its hold in North Africa and Asia Minor. The exploitation of America's wealth stimulated colonization, leading eventually to the establishment of permanent European settlements and holdings in North and South America. The world of international competition and commerce had become much larger than it had been 100 years earlier. We might say that this marked the beginning of the modern movement toward globalization in trade, the exchange of goods, services, knowledge, and even culture across vast expanses of geography. The greatest power in Europe—the Catholic Church—faced its last battle for domination, a battle it lost as the Protestant Reformation spread across northern Europe.

THE SEVENTEENTH CENTURY

Much of Europe was enveloped in war from 1618 to 1648. The Thirty Years' War was partially a religious conflict and partially a struggle to eliminate the supremacy of the Holy Roman Empire, replacing it with numerous sovereign nation-states. It ended with the Treaty of Westphalia, which marks for many the defining moment of transition to the modern state-dominated international system. The new international order following the Thirty Years' War consisted of a system in which territorial, sovereign governments lived securely within what were usually well-defined borders and exercised control over the political, military, economic, and social life within those borders. Today, we give little thought to a world without states. Yet the state as we understand it has not always existed and may not always exist in the future.

The Treaty of Westphalia contains more than 100 specific articles laying out the terms and conditions of the war's end. Most of these articles deal with the allocation or restoration of valuable resources among the participants. A few articles, however, pertain directly to the establishment of territorial sovereignty and to the specific rights and privileges of states. Article 64 establishes territoriality and the right of the state to choose its own religion, as well as the right to noninterference by other states in any of these matters. This article codifies the end of Roman Catholicism's hegemony in Europe. Article 65 spells out the rights of sovereign authority with regard to foreign policy. For example, it establishes that no supernational authority (at that time, the Catholic Church or the Holy Roman Empire) can make or negate alliances made between sovereigns for the purpose of protecting each nation's security. Similarly, Article 67 establishes that sovereign states can determine their own domestic policies, free from external pressures and "with full Jurisdiction within the inclosure of their Walls and their Territories".³

The Westphalian System unquestionably marks a crucial point in international affairs, but it would be a mistake to think that the modern state sprang up suddenly and completely as a result of the Thirty Years' War. Competition between the church and monarchies, starting with the papacy of Gregory VII in the late eleventh century, had already put changes into motion, with the Treaty of Westphalia codifying the changes that were taking place (Bueno de Mesquita 2000).

By the end of the Thirty Years' War, Europe's balance of power had fundamentally changed. Not only had the Catholic Church declined in

influence, but also political power had shifted to France. The war killed about half of all Germans, and France's monarch emerged as the new dominant power in Europe. The ascent of France marked the pinnacle of absolute monarchy, as captured by the French king Louis XIV's famous phrase, "L'état c'est moi" ("I am the state"). Louis was an innovator in government and in national security. He was one of the first sovereigns to maintain a permanent standing army rather than rely on hiring mercenary soldiers to fight when needed. The adoption of a permanent standing army was accompanied by great technological improvements in drill, fighting skill, and weaponry, all of which contributed to strengthening the central authority of the state ruled by an absolute, hereditary monarch.

The Thirty Years' War finished a change in monarchy that had been gradually emerging for some time. Throughout much of the Middle Ages and even before the Norman Conquest of Britain in 1066, monarchy was elective rather than strictly hereditary. Noble birth was a requirement for kingship, and being the child and heir to the previous monarch was a great advantage in gaining the crown, but one still had to be elected. The election of monarchs sometimes led to the selection of someone other than the immediate heir apparent to the throne. The change to heredity as the fundamental means of choosing kings carried important implications for foreign policy. Kings never have to answer to many people, but hereditary kings usually have to answer to even fewer than elected kings. As explained by the selectorate theory, when leaders require the support of very few people, they have incentives to promote their own wealth and that of the few at whose pleasure they serve rather than to promote the welfare of the many who live in their society. So it was for the monarchs who were now less beholden than they had been. Their relative independence from the well-being of their subjects unleashed foreign policy adventures oriented toward securing wealth and power—wealth and power that did not devolve to the people. This meant that war changed in its intensity. The pressure to fight in unpopular wars and the burden of paying for such adventures through heavy taxation eventually destroyed the political advantages of the new monarchism over its older feudal form. By the eighteenth century, the failings of absolute, hereditary monarchy gave rise to revolution and to dramatic changes in political institutions, leading to the emergence of the two dominant forms of modern government: rigged-election autocracy and liberal democracy. The first stirrings of threats to monarchy, however, arose even before the Thirty Years' War ended.

The English Civil War (1642–1648) saw the commoner, Oliver Cromwell, rise to power as he succeeded temporarily in overthrowing the British monarchy. The English king, Charles I, was beheaded in 1649, suggesting a move away from monarchy to either dictatorship or possibly even a nascent democracy. But Cromwell's efforts against monarchy failed to survive him. Cromwell died in 1658; the monarchy was restored in 1660. Still, the power of the Parliament increased as the monarchy became more and more dependent on the financial backing of Parliament to pursue its policies.

Experiments with republican government had occurred throughout the centuries. The Italian republics had flourished during the Renaissance, only to decline as they lost their quasi-republican forms of governance and were taken over by oligarchs. In the Netherlands, great wealth accompanied the move to a semi-republican form of government led by city magistrates. As in England, this shift toward a partially representative government was accompanied by a tremendous outpouring of entrepreneurial activity and great economic prosperity.

The new ideas and debates about government, including the ideas of Thomas Hobbes in *The Leviathan* ([1651] 2009) and of John Locke in his *Two Treatises of Civil Government* (1690), unleashed a wealth of views about government as a social contract between the ruler and the ruled. These and other ideas, coupled with the religious consequences of the Thirty Years' War, contributed to a wave of new settlers in the New World, settlers who seemed committed to experimenting with innovative forms of government designed to escape the oppressive burdens of monarchy. Whereas the early forays into the Americas by Europeans had focused on limited stays designed to extract tradable goods (e.g., furs, lumber, new foodstuffs, other crops) and mineral wealth, the new European arrivals were more interested in permanent settlements.

The Danes, English, French, and Dutch colonized the Caribbean, building slave-based economies around, particularly, the growth and export of sugarcane. Dutch-settled Nieuw Amsterdam (later New York) became a central source of commerce. Peter Stuyvesant, the governor of Nieuw Amsterdam, faced continual political challenges from Adriaen van der Donck, a Dutch lawyer and colonist. Thanks to van der Donck, one of the most important yet little known figures in American history, Nieuw Amsterdam became the source of new ideas about governance, including

freedom of religion, freedom to come and go as one pleased, and freedom of speech (Shorto 2005; van der Donck ([1655] 2010). Even today, the governing charter that van der Donck wrote remains the core of New York City's charter and, perhaps, the foundation of American liberties.

The Pilgrims and other dissenting groups settled up and down the East Coast of North America in search of religious freedom and economic opportunity. It should be understood that their quest for religious freedom often meant freedom to practice their own religious views and not freedom for people to practice other dissenting views. The Mayflower Compact, an agreement on governance signed by the Pilgrims aboard the *Mayflower*, served as an early model for a self-governing community and helped pave the way for reforms in governing institutions that pervade American history and that represented a departure from the confiscatory economic policies that monarchs often pursued toward their subjects.

The latter half of the seventeenth century presaged other dramatic changes in international politics. By the end of the century, William and Mary sat on the throne in England, but political parties had emerged as a critical source of influence in Parliament. The English prime minister became a figure of considerable political consequence rather than merely a spokesman for the Crown. In science, the discoveries of Francis Bacon, René Descartes, Isaac Newton, Robert Boyle, and others began to change how educated people understood the world. Laws of nature were discovered, and the scientific method of experimentation and empirical evaluation began to supplant religious conviction as the basis for reasoned arguments. This, too, weakened the claim of monarchs to rule by divine right (i.e., by the will of God). The world was again on the verge of tremendous changes in attitudes and of significant shifts in political and economic factors governing international relations.

THE EIGHTEENTH CENTURY

Spain had entered a long period of decline by the end of the sixteenth century. The opening of the eighteenth century turned the country into a crucial source of political struggle in Europe. The War of the Spanish Succession (1701–1714) might reasonably be called a world war. It not only involved many European powers, including Spain, Italy, Prussia (a German principality), Holland, France, and England, fighting in military theaters

throughout Europe, it also involved extensive naval engagements at sea. The immediate cause of the war was the death of Spain's Charles II, without an heir of direct descent. Charles had willed the crown to Philip of Anjou, the grandson of France's Louis XIV. The French and the Spaniards agreed to make Philip king and to unite France and Spain. Such a union represented a threat to the security of virtually all other European monarchs.

The intention to make Philip of Anjou the king of a united Spain and France prompted an alliance among England, Holland, Prussia, and Austria. This alliance backed the Archduke Charles of Austria for the Spanish crown. War followed and with it numerous French defeats. However, in 1711, the Austrian emperor Joseph I died and Archduke Charles of Austria succeeded him as the new holy Roman emperor. With Charles now holy Roman emperor, the alliance became concerned that, if Charles also secured the throne in Spain, Austria would hold too much power. With Charles in his new position, the threat that the Habsburgs would once again secure their domination over European politics led the other alliance partners to reach a compromise with the French.

The Treaty of Utrecht (1713) ended the war. Philip became king of Spain; the French and Spaniards agreed never to unite; and Great Britain secured control over Gibraltar, Newfoundland, Nova Scotia, the Hudson Bay Territories and a monopoly over the slave trade in Latin America. The Treaty of Utrecht imposed limitations on France's designs for greater power in Europe, prevented the further expansion of Habsburg influence, and greatly improved Britain's prospects for political ascendancy.

Almost inevitably, the aftermath of the War of the Spanish Succession saw an increase in tensions between France and Great Britain. These two powers fought one another in the Seven Years' War in Europe and in the associated British-French War (1754–1763; also called the French and Indian War) in the Americas. The British-French War culminated in England's taking control of the Ohio Valley and forging close ties with American Indian tribes. Recognition by Britain of these tribes as sovereign nations threatened the interests in land speculation in the Ohio Valley by American colonists. The aftermath of the war contributed to tensions between the American colonists and England, even as it promoted closer ties between the colonists and France. It was also in this war that George Washington first attracted attention as a military leader.

Although the war in the Americas later turned out to have profound

consequences for world history, the main action in the Seven Years' War at the time was perceived to be in Europe. That is, the decision makers of the day did not foresee—how could they?—that the “sideshow” in the Americas would eventually become fundamental to world events. This is a good reminder that decisions can be judged based only on what decision makers know and believe at the time they choose, and not on what we come to know later. In Europe, France, Austria, and Russia fought against Britain and Prussia. Among its many consequences, the Seven Years' War led to the emergence of Prussia as a major European power under Frederick the Great. It also was instrumental in establishing the United Kingdom (created from England, Wales, and Scotland in 1707) as the leader in global colonization. Prussia, of course, remained a major force in European affairs, eventually defeating Austria in the Seven Weeks' War (1866), which gave rise to the modern conception of Germany.

The Seven Years' War and its accompanying battles in North America cost the British government dearly. In an effort to recoup its costs, the English Crown launched new aggressive tax policies, including the infamous Stamp Tax, in the American colonies. Once again, monarchy led to an effort to make people pay for policies they had not endorsed. Harking back to a principle established by England's Edward I in 1297 when he signed *Confirmatio Cartarum* to gain economic support for a war he wanted to fight in Gascony (France), the colonists cried out against taxation without representation, a refrain then also in common use among anti-English factions in Ireland. All English subjects, in principle, had the right to refuse a tax levied by the Crown. Gradually, colonial resentment and British ineptitude escalated into an urge for American sovereignty, leading to the Declaration of Independence in 1776. War followed, with the colonists performing poorly against the better-trained and better-equipped British troops. However, the war took a favorable turn for the would-be Americans when a large French fleet aided them in defeating the British. The British accepted American independence when they signed the Treaty of Paris in 1783.

The leaders of the newly independent American state floundered as they struggled to formulate a workable government among the original colonies while also finding a way to capitalize on international trade in a world in which the British kept American ships out of British-controlled ports. From this early stage of development, when America was still a poor, dependent,

third-world backwater, its potential as a seafaring power and growing opportunities for trade encouraged a strong free-trade, anti-protectionism attitude in some of its early leaders, particularly Alexander Hamilton and George Washington (in opposition to the attitudes of Thomas Jefferson, James Madison, and other founders). Building on the writings of Locke, Hume, and others, the new country's founders—particularly Madison and Hamilton, with an assist from earlier efforts by John Adams of Massachusetts—crafted the US Constitution and with it a dramatic new experiment in democratic republican rule in which merit rather than aristocracy was to be the cornerstone of a person's progress through life. To be sure, reality was much more checkered than the rhetoric of the day; still, the American experiment in governance reflected a dramatic departure from absolute hereditary monarchy and its confiscatory tax policies. Slavery remained an issue of contention and became a crucial factor that led to the creation of a compromise federal structure of government. Eventually the federal bargain unraveled, leading to the American Civil War (1861–1865) nearly a century later.

Not long after the success of the American revolutionaries, Europe itself experienced a major assault on the dominance of monarchy as the primary means of government. England was already well on its way to a form of constitutional monarchy when the French Revolution shook the world. French revolutionaries overthrew the monarchy and proclaimed a republic based on the ideas of liberty, fraternity, and equality—that is, just the opposite orientation to monarchic institutions. The Reign of Terror followed in which thousands of French aristocrats and ordinary French citizens were beheaded as the new leadership sought to remove the vestiges of nobility and inequality from French rule. The movement was doomed because the revolutionaries fought one another, failed to put together a well-structured government, and led the country into chaos. In 1795, Napoleon succeeded in seizing political control, and France drifted from republic to imperial power.

THE NINETEENTH CENTURY

After Napoleon took control of France, he set his sights on other parts of Europe. The continent became embroiled in the Napoleonic Wars from 1795 to 1815, with Napoleon declaring himself emperor in 1804. Napoleon's army—using the first universal military training system—swept across Europe and

North Africa. In 1802, he agreed to the Peace of Amiens, in which Great Britain surrendered many of its colonial holdings to France in exchange for the French agreeing to withdraw from Egypt. By 1805, Napoleon suffered a serious setback when his navy was defeated at the Battle of Trafalgar, marking the end of France's threat to invade England. A year later, in 1806, the Prussians were defeated at the Battle of Jena, resulting in Prussia's loss of its Polish territories, a matter that later became a fundamental issue for Hitler's Germany at the outset of World War II. Napoleon himself was finally defeated at the Battle of Waterloo in 1815 and sent into exile, where he apparently was murdered by poisoning.

Napoleon's conquests left an indelible mark. He helped rationalize governance in much of Europe by imposing the Napoleonic code of law. Even today, we can find the influence of French law in significant parts of Europe and in Louisiana in the United States (the state was once a French territory). Following his defeat, the victors, including Austria, Great Britain, Prussia, and Russia, created the Concert of Europe (forged at the Congress of Vienna) to coordinate foreign policy among the great powers in the hopes of preventing a future Napoleon from jeopardizing sovereign control in Europe's states. Among the more dramatic actions taken by the Concert of Europe was that the victors agreed to restore the French monarchy and bring France back in as one of the great powers.

Meanwhile, the revolutionary storm unleashed in France at the end of the 1700s continued largely unabated. Efforts to topple monarchy and establish a more popular government arose in 1830 and again in 1848 as dissident youths and others took to the barricades. Although these movements failed, they planted the seeds for sharp changes in the years to come.

In England, the monarch was becoming increasingly a constitutional figurehead, and the prime minister and Parliament were the growing seats of power. By 1835, Britain had adopted a voting rights act that clearly made it into a constitutional monarchy—a new form of government—in which the House of Commons was the source of political power. During this same period, English domination of the seas was unquestioned, and British banking was fundamental to the colonial and other ambitions of much of Europe. The nineteenth century marked the peak of British **colonial power**—that is, the domination of a people and territory by occupation or governance by an external power—especially in India, elsewhere in Asia, and in Africa.

England surged far ahead of its competitors for several reasons. Britain,

as an island nation, had developed superior naval capabilities to foster and support its colonial holdings and to secure its borders against foreign threats. In addition, the industrial revolution took place in Britain earlier than on the European continent, in large measure because of the greater responsiveness to entrepreneurial ideas and land enclosures that rationalized agriculture in England. Also, England had a stronger orientation toward relatively free trade than did France and others. This orientation promoted greater competitiveness in English industry, promoting efficiency and rapid economic growth.

The English quest for new goods and new markets helped fuel its imperial ambitions. Between 1839 and 1842, for instance, Britain fought China in the Opium War, which arose from China's efforts to prevent Britain from importing opium into China from Britain's colony in India. The British won the war, which was ended by the unequal Treaty of Nanking. Under the terms of this treaty, Britain obtained control over several Chinese ports, including Hong Kong (which it returned to China on July 1, 1997, on the expiration of its lease over the territory). The English also gained special privileges and legal protections in China. The Chinese received little in return. Unequal French and American treaties with China followed soon thereafter, solidifying the era of imperial expansion.

As part of American **expansionism**, the United States fought Mexico in the Mexican-American War (1846–1848). The United States established the Rio Grande as its border with Mexico and claimed Texas and California. It secured ownership over vast territories through purchase (the Louisiana Purchase) and through conquest, including the present-day plains states. These states were taken from the sovereign Indian tribes of those areas. Many of the treaties signed with Indian nations in the 1800s are the legal basis today for the proliferation of Indian-operated casinos on tribal lands, which are, because of the treaties, exempt from taxation.

American expansionist designs were not confined, however, to the North American continent. In 1854, US naval ships forced the shogun-led Japanese military government to open Japan's ports to trade with the United States. By 1867, internal dissent led to the resignation of the shogun, the end of the shogunate's more than 250-year rule, and the reassertion of the emperor's role as the primary leader of Japan. The Meiji Restoration of 1868 allowed Emperor Mutsuhito to reassert the emperor's traditional powers, which had lapsed during the shogun period. This led for a time to a more pro-Western

orientation and an effort in Japan to adapt to western ideas and business practices. However, the military party gained substantial influence in Japan's newly created parliament in 1878. The military opposed European ideas, favoring instead Japan's own role as an expansionist, imperial power. The party encouraged Japan to pursue expansion on to the Asian continent. This, in turn, led to the Sino-Japanese War of 1894 and the Russo-Japanese War a decade later. With these two wars, Japan established itself as a significant political power in Asia, taking control of substantial portions of China and Korea. Japanese expansionist ambitions in Asia continued until its defeat in World War II.

Meanwhile, on the European continent, the struggle to control Europe's destiny continued. Otto von Bismarck first succeeded in unifying Prussia and several smaller German principalities during the Seven Weeks' War (1866), in which, to the surprise of most European leaders, he quickly and easily defeated Austria. This war marked the end of the Concert of Europe system that had been forged half a century earlier in the wake of Napoleon's defeat. Austria, at risk of losing its status as a major power, was forced to accept an arrangement with Hungary that resulted in the creation of the Austro-Hungarian Empire. This new alliance was an attempt by Austria to shore up its declining political position relative to Prussia's. Just four years later, Bismarck went to war against France, defeating Napoleon III in the Franco-Prussian War of 1870–1871. With France's defeat, Bismarck succeeded in unifying the remaining German principalities, creating modern-day Germany. He also established Prussia/Germany as the rising power of Europe and France as a state in decline. This set the stage for the two world wars of the twentieth century.

The nineteenth century was not only a time of continental expansion for the United States and a time when it began to spread its influence abroad; it was also a period of rapid economic growth and the establishment of the country as a transcontinental power. Following the American Civil War, the United States incorporated vast territories as new states. With the building of the transcontinental railroad, the US government made it possible to control its continental territory and provided a cheap and fast means to transport people and goods across the continent. Likewise, the construction of the Panama Canal greatly stimulated commerce between the East Coast of the United States and the West Coast and beyond, shortening the time and cost of shipping goods between ports on the Atlantic and Pacific Oceans. By the end

of the nineteenth century, the United States was actively engaged as a colonial power, gaining influence in the Philippines and Cuba as a result of America's defeat of Spain in the Spanish-American War. The United States was well on the way to supplanting Britain as the richest country in the world.

THE TWENTIETH CENTURY

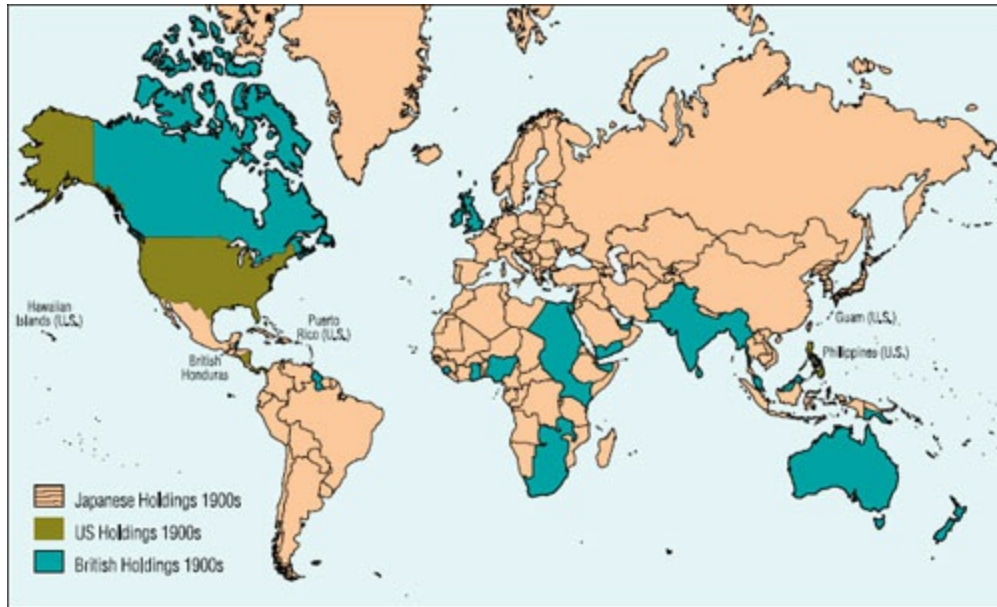
The fifteenth to seventeenth centuries witnessed the consolidation and gradual decline of monarchy. The eighteenth and nineteenth centuries were, broadly speaking, a period in which those who adopted more democratic forms of government and more capitalist modes of economics enjoyed burgeoning wealth and influence in the world. Some changes were to the good—as in the expansion of rule of law and improvement in living conditions—and some involved the imposition of colonial rule on people who fought for and preferred to pursue their own destinies. Many of these centuries-old patterns culminated in dramatic global changes during the twentieth century.

The World through the First World War

Revolutions against monarchy and oligarchy arose in Russia in 1905 and China in 1911. Mexico likewise gave birth to a popular revolution seeking to overthrow oligarchy. By 1914, tensions between the expansionist designs of the Austro-Hungarian Empire in Europe and Serbian nationalism led to a seemingly minor tragic event, the assassination of the prospective heir to the Austro-Hungarian throne, Archduke Franz Ferdinand, in Sarajevo, Serbia. Following the assassination, Austria issued an ultimatum to the Serbian government that essentially called for the Serbs to give up their sovereignty. As tensions mounted, Europe's great powers chose sides in the dispute. Russia sided with the Serbs. Under the terms of the Triple Entente, an alliance between Russia, France, and England, France and England also sided with the Serbs. Under the terms of the Dual Alliance between Germany and Austria, those two great powers backed one another, with additional support coming from Romania, Turkey, and elsewhere. Fearing an aggressive move by Germany, the Russians mobilized, prompting a similar mobilization by Germany. In a short time, the conflict over Serbia had escalated to involve all

of the great powers on the continent. The Great War (later called World War I) had begun.

Map A.3 US, British, and Japanese Colonialism, Circa 1900



The impulse for colonial expansion was especially strong in the eighteenth and nineteenth centuries. By the beginning of the twentieth century, colonialism was starting to wane, with the Americas almost completely liberated from their eighteenth-century rulers. Nevertheless, colonialism remained an important feature of foreign policy and economic expansion until the end of World War II. Although old colonial ties remain strong indicators of current economic relations among European and non-European states, little of the world remains under the control of foreign “hosts” today.

Fought between 1914 and 1918, the war greatly accelerated political change in Europe and fundamentally altered international relations. By the end of the war, the world had experienced its first truly modern trench warfare. Mustard gas (a chemical weapon) had been used effectively, raising the specter that future wars would be nonconventional. Modern weapons had greatly increased the war’s carnage, prompting intense efforts to find ways to avert future cataclysms.

The war ended with the Treaty of Versailles, which imposed harsh terms on Germany, including the tremendous economic burden of reparation payments to help France and other nations recuperate the costs of the war. One consequence of the war’s end was that the map of Europe was redrawn.

The Austro-Hungarian Empire ceased to exist, replaced by independent countries carved out of its territory. Germany was greatly weakened, but so too were the victors, especially England, France, and Russia. The United States, under President Woodrow Wilson, emerged as the most powerful nation in the world. Wilson's Fourteen Points called for a major transformation in international politics. In an effort to prevent a future Great War, the victors built on Wilson's ideas to create the League of Nations to maintain peace through collective security. The United States, however, seeking to return to a policy of isolation, did not join the League, which ensured that this international body lacked the teeth necessary to play a major peacekeeping role.

One of the tenets promoted by Wilson in his Fourteen Points was that people should be free to choose their own government, thereby helping seal the terminal fate of monarchy and advancing Wilson's objective of making the world safe for democracy. Unfortunately, Wilson did not endorse the idea that self-determination should necessarily carry over right away to colonial areas. One of those dejected by that failure of the Treaty of Versailles was a young man named Ho Chi Minh, who later emerged as the leader of North Vietnam. He led the Vietnamese wars against the French and then the Americans in Indochina and Vietnam throughout the 1950s, 1960s, and into the 1970s, in part for that right of self-determination. Regrettably, in the process he imposed communist rule in Vietnam with its attendant dictatorship and oppression of the very principle of self-determination that he had at one time advocated. To this day, the Vietnamese people do not have the right to freely elect their own government.

World War I imposed extreme costs on the tsarist regime in Russia. By 1917, the tsar's government faced revolution. The Russian Revolution succeeded in overthrowing the monarchy and led briefly to a liberal, democratic government. That government, however, was weak and unable to consolidate its power when faced with a challenge by Vladimir Ilyich Lenin's Bolsheviks. Between 1917 and 1922, Lenin converted Russia into a Soviet Republic with a socialist government led by the Communist Party. This meant that ordinary people had little, if any, say in the government because (according to the communist regime) they were susceptible to bourgeois influence and suffered from a trade-union mentality that did not allow them to see the big picture—the hypothesized shared self-interest of working people everywhere. Therefore, decisions were centered in the hands

of the elite in the Communist Party because they were the vanguard of the proletariat (common laborers) who supposedly understood the proper path to socialism.

The Interregnum between World Wars

The Russian Revolution launched a bold experiment in the application of Karl Marx's and Friedrich Engel's ideas of communism as an alternative to capitalism. In communism, the economic ideal is that each individual would contribute to society according to his or her ability and each would receive whatever he or she needed from society in return. In capitalism, the economic ideal is that the "hidden hand" of market forces would produce efficient growth and prosperity; that is, no individual or firm could be big enough to control the price at which goods and services were bought or sold.

Many people saw the ideas of communism as the likely long-term successor to monarchy—then in its final death throes—and to liberal democracy. Communism seemed to integrate economics and politics in a way that promoted equality on both fronts. As appealing as the ideal may have seemed, in practice it was an utter failure as a basis for economics or politics. Faced with few incentives to be productive—because what people received from the state was not supposed to depend on what they produced—people shirked their jobs, trying to benefit from the labor of others while doing little themselves (called free riding). Like monarchy before it, communism/socialism unintentionally discouraged people from hard, productive labor because they were not rewarded in proportion to what they produced. Those who did work hard were, in essence, subjected to the confiscation of their earnings to support others who did not work hard. Thus, communism, like monarchy, hampered economic growth and prosperity for the common people.

The communist political system was grounded in beliefs such as the existence of common interests among all workers. It assumed that this entire class of people shared the same preferences about domestic and foreign policies. For this reason, dissent could not be tolerated. When Lenin observed that the proletariat did not act as if all of its members shared this core set of preferences, it became necessary to stifle their opportunity to express dissent. Thus, he established the Communist Party to protect against the risk that ignorant and impressionable workers would undermine his revolutionary

objectives.

The result was that the political system naturally lapsed into dictatorship as the economy languished in the absence of individual incentives to produce. These problems, already manifest by the early 1920s, became much worse following Lenin's death. Joseph Stalin replaced Lenin and gradually converted the Soviet system into a personal dictatorship. He did so by purging anyone and everyone he even suspected of disagreeing with him. Almost all the top political leaders were branded enemies of the people and executed during the latter part of the 1930s. Stalin likewise intentionally created a famine in the Ukraine, leading to the deaths of millions of people he feared were disloyal to him. Like absolute monarchs before him, Stalin became answerable to only a handful of people whose support he needed to maintain him in power.

While the communist movement took hold in Russia after World War I, **fascism**, a system of totalitarian government in which the government controls all aspects of economic and political activity (unlike communism in which the people, in theory, control the means of production), rose as another alternative to monarchy, starting in Italy under Mussolini in 1922 and in Germany under Hitler from 1933 onward. Fascism, like communism, gave rise to harsh dictatorships with no respect for rule of law or individual rights. The extreme economic circumstances in Germany after World War I provided the impetus for a dictatorship to replace Germany's democratic but weak Weimar Republic. The onset of the Great Depression in North America and across Europe in 1929 sent the global economy into a tailspin. When global trade collapsed, Germany's currency became all but worthless, and it was unable to make war-reparation payments. Millions of its citizens were out of work. In this atmosphere, Adolf Hitler and his followers gained popularity, winning seats in the Reichstag (the German parliament). Hitler quickly converted his early electoral success into burgeoning political influence and, through shrewd maneuvering, was elevated to the post of chancellor of Germany. Once he reached this position, Hitler suspended democratic elections and never again allowed himself or his National Socialist Workers Party (the Nazi Party) to face the will of the people. He might as well have done so, however, because by all appearances he was incredibly popular as he rebuilt Germany's military might and standing in Europe.

The World War II Years

Germany had been banned from rebuilding its military after World War I under the terms of the Treaty of Versailles. Nevertheless, Hitler went ahead and did so in the 1930s and then used this military to reoccupy the land given up at the end of the war. Because he got away with his first actions, he became emboldened. At Munich in 1938, Hitler struck a deal with Britain's prime minister, Neville Chamberlain, in which Hitler was allowed to take over parts of Czechoslovakia but nothing else. Chamberlain's appeasement of Hitler was warmly welcomed in Britain at the time. However, when Hitler then attacked Poland on September 1, 1939, the British realized that Hitler's declaration that he had "no more territorial claims in Europe" was a lie. England declared war on Germany immediately following Germany's invasion of Poland, and Winston Churchill emerged as the new British prime minister. The French and others quickly joined in the war against Germany.

Russia, however, was not among the Allied powers that declared war on Germany. Under the terms of the Molotov-Ribbentrop Pact, signed in the summer of 1939, Stalin's Soviet Union and Hitler's Germany were allies. They had agreed to partition Poland, with some parts of Poland going to Germany and others to Russia. Remarkably, anticommunist Germany and ostensibly antifascist Russia joined in a common cause. That common interest, however, was broken when Hitler later invaded the Soviet Union, pushing Stalin into a wartime alliance with the British, French, and Americans.

Although there is speculation that President Franklin D. Roosevelt wanted to enter the war on Britain's side almost from the outset, the United States remained militarily aloof from the war in Europe, working on its own domestic economic problems until Japan bombed the US naval base at Pearl Harbor, Hawaii, on December 7, 1941. Before that moment, US war policy largely consisted of providing substantial economic assistance to England (called Lend-Lease) but no military contingents or commitment. Winston Churchill, in one eloquent speech after another during those dark days of 1940 and 1941 that followed the defeat of France, Belgium, and the Netherlands by Germany, reiterated at every opportunity that England stood alone in defense of freedom and democracy. By the beginning of 1942, however, the United States was fully committed to the war effort in Europe and Asia.

Prior to the attack on Pearl Harbor, Japan's expansionist ambitions in Asia were being thwarted by a US trade embargo imposed by President Roosevelt. In a daring decision, the Japanese leaders concluded that their best chance of prevailing in Asia depended on removing the latent threat that the United States would enter the war to stop them. They concluded that if they could cripple the US Navy, then they could take control of essential areas in Asia before the United States could rebuild and mount a counterattack. The Japanese leaders' hope was that if they realized their ambitions, the United States would see it as a *fait accompli* and live with the consequences rather than fight a costly, protracted war. By bombing Pearl Harbor, the Japanese hoped to wipe out the American Pacific Fleet and achieve their objectives. They failed and, as they themselves anticipated, the consequence of that failure was a high probability of subsequent defeat in the war.

With the United States fully committed to the war effort, its economy began to expand rapidly. The Great Depression began to fade into the past. America's industrial capacity was unmatched by Japan or by Germany and its ally Italy, even after taking into account the resources of the huge areas conquered by the German army or the millions of slave workers and prisoners forced to labor on behalf of Germany's war effort. With intense military pressure from the Russians in the East and from the Americans, British, Free French, Polish expatriates, and others in the West, the tide of battle turned against Germany. Likewise, in the Pacific, the US naval victory at Midway destroyed so much of the Japanese fleet that the war in Asia also turned in favor of US interests. In June 1945, Hitler's Germany lay in ruins and surrendered unconditionally. Mussolini's Italy had been beaten earlier when the Italian people themselves overthrew their dictator and joined the Allied side. In August 1945, Japan, which continued to fight, was compelled to surrender following the atomic bombings of Hiroshima and Nagasaki by the United States; these acts announced the arrival of the nuclear age. Japan's surrender, unlike Germany's, was not unconditional. Japan was allowed to retain its emperor.

World War II was the deadliest conflict in all of history. Tens of millions died, including 20 million Russians. Approximately 6 million Jews were murdered in Germany's concentration camps, eliminating almost all of Europe's Jewry. In addition, the Nazis singled out gypsies, homosexuals, communists, Slavs, and other groups for extermination. Despite overwhelming evidence that such exterminations were taking place, few

countries willingly provided homes for those seeking refuge from Nazi-dominated Europe—only Mexico and the Dominican Republic unconditionally opened their doors to Jews fleeing Europe. The United States maintained its strict immigration quotas, even turning ships of refugees back to Europe and to certain death. The Swiss government, ostensibly neutral throughout the war, likewise refused to provide a safe haven for those fleeing the murderous policies of the Nazi regime.

The Cold War Years

By 1945, it was evident that the Nazis would lose and so planning for the postwar world began. The negotiations among the British, Americans, and Russians at Yalta and then at Potsdam as the European war drew to a close established some principles that were intended to guide the postwar world. Most of Eastern Europe, having been liberated from the Nazis by the Soviet army, fell under Soviet control. Stalin's government quickly imposed communist dictatorships. Germany was partitioned, with portions controlled by the United States, France, England, and the Soviet Union. Sovereignty was restored in Western Europe to all the countries that had been subjugated by Germany during the war, and these states went about the business of holding competitive elections to choose their own leaders. In the parts of Germany not controlled by the Soviet Union (i.e., in what came to be called West Germany), a new constitution was written by the victors, creating a pro-American democratic government with competitive elections, civil liberties, rule of law, and the like. The United States similarly helped write a democratic constitution for Japan and helped put that country on the way to becoming a liberal democratic society that would strongly support US foreign policy for decades after the war ended.

At the end of World War II, the United States was by far the most powerful and richest country in the world. While much of the rest of the world's economy lay in the ruins of war, the US economy was thriving. In an effort to resuscitate the global economy, the United States launched the Marshall Plan in 1948. The plan's economic policy requirements plus money helped rebuild Europe and helped forge closer ties between the United States and the governments it aided. Although such assistance was also offered to the Soviet Union, the Soviets refused.

Through the establishment of the Bretton Woods monetary system, which

established the US dollar as the bulwark of international economic transactions, and the creation of the United Nations, the United States, with the support of its allies, attempted to erect a favorable economic and security framework for the postwar world. The United Nations was designed with two main bodies for dealing with fundamental matters: (1) the General Assembly and (2) the Security Council. The former contains representation from every member country. The latter is a smaller body that is the key United Nations instrument for addressing threats to peace. The UN Security Council (UNSC) is made up of rotating seats and five permanent seats. The permanent members—the United States, Russia, France, England, and China—each has a veto. This means that the United Nations cannot intervene in a security matter if intervention is opposed by even one of these five states.

Severe cracks in cooperation among the war's victors emerged within two years of the end of the war. By 1947, it was evident that the Soviet Union would not continue as a cooperative ally working with the United States, Britain, France, and others. In 1946, Soviet tanks gathered on Iran's border, threatening to overrun that country. A quick response by the United States prevented the spread of Soviet influence to that oil-rich and strategically located country. Two years later, in 1948, Stalin stopped allowing Allied trucks to enter the western sector of Berlin, thereby cutting the city off from supplies. This was possible because the city of Berlin itself, in addition to the country of Germany, had been partitioned at the war's end; Berlin, however, was situated in East Germany and thus West Berlin became an enclave surrounded by East Germany. President Harry S. Truman stood up to the Soviet threat by creating an airlift that provided the people of West Berlin with supplies. The Soviets backed down and once again allowed truck traffic from the West into Berlin. By now it was clear that a cold war (which lasted approximately from 1947 to 1989) had emerged between the United States and its Western European allies, on the one hand, and the Soviet Union and its allies, on the other.

The rift between communism and capitalism, between dictatorship and democracy, grew worse with the victory of China's communists under Mao Zedong over the autocratic Kuomintang government. The latter retreated from China's mainland to Taiwan, where it created the Republic of China and where, after decades of autocratic rule, it has now created a democracy with a thriving economy. The People's Republic of China, for its part, continues to claim Taiwan as a rebellious province and does not recognize the government

on Taiwan as a sovereign state. Mainland China is far behind Taiwan in economic performance, although its economy has grown at an impressive annual rate since about 1979, when Deng Xiaoping, then China's leader, introduced economic reforms. The country, however, persists as one of the world's more autocratic regimes, remaining far behind Taiwan in the development of democratic government and economic well-being for its citizens.

The Cold War turned hot between 1950 and 1953 following North Korea's invasion of South Korea. Korea had been divided between communist North Korea and autocratic, anti-communist South Korea following World War II. China pitched in to help the North Koreans. The United States and others, under the auspices of the United Nations, intervened to push the North Koreans and China back above the 38th parallel, the previously established line of partition. The Korean War ended in 1953 with the reestablishment of the prewar line of partition, but US troops have remained stationed in South Korea ever since to help ensure that the North does not again attempt to invade the South. In the meantime, North Korea has grown into one of the most reclusive, secretive, and heavily militarized regimes in the world, while South Korea has moved from autocracy to democracy and has experienced extraordinary economic growth. The North and South Korean people had comparable per capita incomes in the 1950s, but today the people of the South enjoy a per capita income that is about twenty-five to thirty times larger than that in the North.

Partially in response to pressures unleashed by World War II and partially because of political pressure brought to bear by the anticolonial rhetoric of the Soviet Union, the years following the war experienced a tremendous proliferation in national liberation and decolonization. Britain agreed to quit India and create independent Indian and Pakistani states at the end of the 1940s. Likewise, under extreme pressure from fighters within Palestine, Britain gave up its control in that part of the world, leading to the creation of the state of Israel. The bloody war that followed between Israelis and Palestinians persists as one of the most dangerous unresolved conflicts in the world.

The 1950s and early 1960s saw much of Africa freed of its colonial "masters." Tragically, few of the liberated colonies, following their struggles against colonialism, emerged as successful states that promoted the welfare of their own citizens. Instead, most became petty dictatorships dominated by

corrupt bureaucrats and kleptocratic leaders who seemed more inclined to take national wealth and foreign aid and channel it into their personal bank accounts than to spend it on national programs to stimulate economic and social well-being. South Africa over the past decade or so and Botswana for most of its independent history since 1966 are two exceptions, reflecting democratic governments that seem committed to improving the lot of their citizens. Over the past ten or so years, Africa in general seems to have moved in a positive direction and now enjoys modest economic growth rather than decline. But, as a coup in Mali in 2012 reminds us, the impetus toward democracy is fragile and easily reversed.

Map A.4 **Divided Germany**



By the 1960s, the United States and the Soviet Union seemed to be making progress toward a long-term means of living with one another. The development of nuclear weapons and intercontinental missiles had created an environment of mutually assured destruction (MAD) in which each side feared that a conflict with the other could expand into a war that would leave the earth in ruins. Probably the major turning point toward a *modus vivendi* followed the Cuban Missile Crisis in October 1962. With Soviet influence having spread to Cuba through Fidel Castro's successful communist revolution, the United States under President John F. Kennedy made an effort to topple the Cuban regime. The US-planned and US-sponsored Bay of Pigs

invasion was intended as a Cuban expatriate invasion of the island country that would foment a popular uprising. It failed to do so, but it did prompt the Soviet government of Nikita Khrushchev to further strengthen its ties to Castro. One manifestation of those strengthened ties was that the Soviet Union sought to place missiles in Cuba to threaten the United States and countries in Latin America (from the American point of view) or to deter the United States from again trying to overthrow the Castro regime in Cuba (from the Soviet point of view). Once the Soviet missiles in Cuba were uncovered by reconnaissance photographs, Kennedy called for their removal and emphasized that there was a grave danger of nuclear war if the missiles were not removed. After two weeks of severe tension, including a US naval blockade of Cuba, the Soviet Union agreed to remove the missiles, and Kennedy promised not to invade Cuba and secretly agreed to remove American missiles from Turkey. After the crisis was resolved, it became apparent that the two nuclear superpowers needed to find a way to coexist.

The prospects of peaceful coexistence improved during Richard M. Nixon's presidency when the United States and the Soviet Union adopted a policy of *détente* toward one another. Arms control agreements were negotiated. The Vietnam War (1965–1973) between the United States and South Vietnam, on one side, and communist North Vietnam, on the other, ended in an American withdrawal and the subsequent defeat of South Vietnam by North Vietnam, but at least Vietnam was removed as a source of tension in Soviet-American relations. Meanwhile, President Nixon and Henry Kissinger, his secretary of state, began a dialogue with China that eventually led to renewed contacts and diplomatic relations after decades of estrangement following the post–World War II Chinese Revolution.

Likewise, after the 1967 and 1973 Arab-Israeli wars, Nixon and Kissinger helped encourage Egypt's president Anwar Sadat to make a significant peace overture to Israel. Sadat offered to visit Jerusalem and make peace with Israel. Menachem Begin, then the Israeli prime minister, and Sadat took courageous steps that culminated in the Camp David Accords brokered with the help of President Jimmy Carter in 1978. Since then, the Israelis and Egyptians have maintained diplomatic relations, and Egypt, along with Israel, receives substantial US foreign aid. Aid to Egypt, however, has been interrupted recently while the United States waits for greater clarity about the direction Egypt's government will take following the Arab Spring of 2011. Even during the heyday of the peace agreement between Israel and Egypt,

relations remained cool because the successor to the assassinated Anwar Sadat, Hosni Mubarak, did little to promote improved relations between his country and Israel.

At roughly the same time that the United States was helping build a peace settlement between Israel and Egypt, the Soviet Union broke with détente by invading Afghanistan in 1979. President Carter, declaring himself surprised by the Soviet move, reduced trade with the Soviet Union and cooled relations. The year 1979 saw other momentous events, including the overthrow of the shah of Iran by a fundamentalist Muslim movement led by the Ayatollah Ruhollah Khomeini. Near the end of 1979, the American embassy staff in Tehran, Iran, was taken hostage in a gross breach of international law and diplomatic conduct. The Americans were held hostage for more than a year and were released at the time of Ronald Reagan's inauguration as president of the United States. Relations between the United States and Iran have remained strained since then. The Iranian revolution marked the beginning of the current era of fundamentalist Islamic contention throughout the Muslim world. This continues to be one of the central sources of international dispute and friction in the Middle East and in Asia Minor, western China, Indonesia, Malaysia, and elsewhere in Asia.

When Ronald Reagan became president in 1981, he implemented a massive military spending program that was intentionally designed to force the Soviet government to choose between continued competition and potential economic collapse or fundamental policy change (Skinner, Anderson, and Anderson 2001). The Strategic Defense Initiative (SDI, or Star Wars, as it came to be called) was also intended to put the Soviet Union on notice that the United States would no longer live within the confines of the old policy of MAD. Rather, the United States under Reagan sought the means to keep the American people secure by neutralizing the threat of a ballistic missile attack. While these pressures mounted, so too did internal pressure for change throughout Eastern Europe. The Soviets agreed to the Helsinki Final Act in 1975 by which the United States recognized the sovereignty of East Germany and acknowledged as permanent the partition of Germany that ended World War II. In exchange, the Soviets recognized West Germany and, critically, agreed to planks regarding human rights and the authority of watchdog groups to report on human rights violations throughout the Soviet Union and Eastern Europe. These groups and the legitimacy of such reportage fostered by the Helsinki Final Act paved the way for

antigovernment uprisings in Eastern Europe. The Solidarity trade union movement in Poland, for instance, was emboldened by the publicity ensured through the Helsinki Final Act as well as by the positive attitude toward change supported by the Polish pope John Paul II. The Helsinki Final Act also helped undermine a fundamental principle of the 1648 Treaty of Westphalia that ensured that what sovereigns did within their own territory was not subject to rebuke by foreign powers (see [chapter 11](#)).

The Post–Cold War World

As Leonid Brezhnev and his short-lived Soviet successors passed from the scene, the Soviet Union underwent dramatic internal changes. Mikhail Gorbachev took over the government and soon thereafter launched a program of economic reform and liberalization of the Soviet hold over its Eastern European empire. By 1988, Margaret Thatcher, the British prime minister, reacting to the dramatic changes taking place in the Soviet bloc, declared that the Cold War was over. In 1989, the Berlin Wall, built in 1961 and the prime symbol of Soviet oppression in Europe, was torn down, and within two years after that, the Soviet Union no longer existed. The US-Soviet rivalry that had defined the years between 1945 and 1990 was replaced by a resurgence of American influence around the world, the unification of Germany, a surge in democratization all over the globe, and a rapid shift to market-based economies and away from state-planned socialism.

The last decade of the twentieth century saw efforts to define a new world order. The end of the Cold War removed many of the restraints that had held smaller prospective conflicts in check out of fear of exacerbating US-Soviet relations. With the Soviet Union out of the picture, war erupted in the Persian Gulf and in numerous pockets of ethnic rivalry throughout Eastern Europe, but most notably in Chechnya, Bosnia, Kosovo, and other parts of the former Yugoslavia. Many of these and other rivalries—most notably the war on terror, the struggle for Chechen independence, disputes over control of portions of Georgia, and especially the Arab Spring—persist today as indicators that the tectonic plates of international affairs are still shifting and feeling the aftershocks of the end of the Cold War.

The 1990s also saw direct assaults on US interests, with an attempted terrorist bombing of the World Trade Center in New York and the destruction of two American embassies in Africa and on the USS *Cole* in Aden, Yemen.

In counterpoint to these conflicts, the Cold War's end has also fostered new arenas of cooperation. Many states formerly in the Soviet sphere of influence, including Poland, Latvia, Estonia, Lithuania, and others, are now partners of the North Atlantic Treaty Organization (NATO). NATO was originally formed to help contain the Soviet Union. After developing closer ties with Russia following the end of the Cold War, today NATO again has strained relations with that country. The Russian invasion of Georgia in 2008 and its veto of a UNSC resolution to pressure Syria's Bashar al-Assad to stop killing his own citizens have left the Western nations with a renewed sense of pessimism and caution in their dealings with Russia.

The first decade of the twenty-first century continued the bloody playing out of post-Cold War tensions and fundamentalist Islamic ambitions. The United States experienced the most deadly attack on its shores on September 11, 2001, when Al Qaeda terrorists crashed airplanes into New York's World Trade Center buildings, into the Pentagon (home of the Department of Defense), and into a field in Pennsylvania when courageous passengers fought against the terrorist hijackers and prevented them from flying the plane they had commandeered into the White House or some other US government target in Washington, DC. The 9/11 attack killed about 3,000 people, more even than the Japanese bombing of Pearl Harbor on December 7, 1941. American allies around the world were also subjected to horrific terrorist attacks as Al Qaeda tried to promote a global jihad. Hundreds of Australians and Indonesians in Bali, Indonesia, and hundreds of Spaniards were murdered in terrorist attacks in the early years after 2000.

Following the 9/11 attack, the United States, with the support of the United Nations, launched a war against the pro-Al Qaeda Taliban government of Afghanistan and overthrew it. Today, the Taliban, although no longer in control of Afghanistan, remain a serious, even resurgent threat. Its growing influence along the Afghan-Pakistani border, as well as the growing political instability within Pakistan, represents one of the most significant challenges facing the United States and its European allies in the second decade of the twenty-first century.

In the Middle East, the years 2010 to the present saw a series of antigovernment rebellions that collectively have come to be known as the Arab Spring. In Tunisia, an autocratic government was overthrown with encouraging indications of progress toward a more representative government. Hosni Mubarak, Egypt's longtime dictator, was likewise

overthrown, but the revolution of the people seems to have been betrayed. Today, the military and the Muslim Brotherhood struggle for control of the post-Mubarak government. The prospects of a truly representative government in Egypt seem dim as control over the press has been resumed by the newly elected government led by the Muslim Brotherhood. Libyan rebels succeeded in overthrowing their dictator, Muammar Qaddafi, but there too the aftermath is discouraging for those who—naively from the theoretical focus in this book—thought the Libyan revolution would promote democracy. Instead, clans and militias fight each other and establish petty fiefdoms, each seeking control of a portion of Libya's vast oil wealth. Similarly depressing tales followed efforts at revolution in Bahrain, Yemen, and most especially in Syria. The prospects that the Arab Spring will turn into a frigid Arab Winter look all too good.

On the global economic front, the end of the Cold War was predicted to yield a peace dividend around the world as military spending seemed less critical than before. Indeed, the decade immediately after the collapse of the Soviet Union saw great economic expansion, but that expansion was accompanied as well by profligate spending that left many economies in dire economic straits. By 2012, fears that the euro will collapse as a currency are real although there is also hope that the governments of Europe, and the broader set of wealthy states will intervene to buttress the most troubled European economies to ward off the economic disaster that would be likely if the euro experiment failed. Bailouts have become common around the globe. The United States greatly increased its national debt to fund its wars in Iraq and Afghanistan while expanding its spending on the domestic front. The upshot was a long and deep recession. Recovery remains fragile as the threat of economic failure has spread around the developed world and is beginning to infect the emerging economies. Although still high by US standards, China's growth rate has slowed substantially and so has India's. These slowdowns portend great risks for the international economy as they tend historically to be followed by pressure for greater trade protectionism and anti-immigrant jingoism, both of which contribute to economic malaise.

Not all developments around the world in the past decade or so of the new century have been as disheartening as the spread of terrorism or the deep economic deterioration. In Mexico, the election of Vicente Fox as president on July 2, 2000, marked the beginning of a new era of genuinely competitive politics. Indeed, the presidential election in 2006 was hotly contested and was

a very close call between the eventual winner, Felipe Calderon, and his opponent, Andres Manuel Lopez Obrador. Although Obrador claimed the election was stolen from him and some of his supporters took to the streets, calm quickly returned as the mass of the Mexican people endorsed the electoral process as having been free and fair. A new election in 2012 saw Obrador once again as one of the major candidates for president. The much more moderate reform-oriented candidate Enrique Peña Nieto of the PRI party won the election amidst promises of important economic, social and political reforms. With the transfer of power from one party to another and then another, Mexico seems well on its way to a strong commitment to democracy. This promises to be good for the economy and to promote reduced corruption and a greatly improved quality of life for the citizens of Mexico. Similar stirrings of political reform have been seen in Tanzania, Kenya, Nigeria, and elsewhere in Africa. Although these reforms have been subject to backsliding, still there seem to be signs of political change for the better.

SUMMARY

This brief overview of history provides a useful backdrop against which to think about international politics. International politics is not the product of randomly emerging events. As I have tried to make clear, events are the product of patterns of choices made by decision makers responding to and creating new circumstances in the international arena. By tying history to the explanations of decision-making choices offered throughout this volume, we can begin to see how much of what happens in the international arena makes sense and how well the past and present fit with alternative theoretical accounts. The linkage between history as evidence and theory as logic is, I believe, the most fruitful way to improve our understanding and our decisions in any arena. I hope that by now, having read this entire book, you share that view.

¹ For example, my mother, who fled Belgium when it was bombed by the Nazis on May 10, 1940, always said that World War II started on May 10, 1940. When I pressed her about the German invasion of Poland eight months earlier, she responded, “Oh, that was the German-Polish War.”

² Although not strictly a war between Christian and Islamic cultures, our own time has

produced the war on terror begun in 2001 by the United States and its allies against Muslim extremists in Afghanistan known as the Taliban and their partner Al Qaeda; in addition, the American-led war against Iraq began in 2003. These wars and terrorist attacks against Western-influenced countries have created such intense feelings that in 2004 a prominent German leader in the European Union argued against eventually allowing Turkey to join the European Union. He maintained that this would advance the Islamization of Europe and would undo the gains made in Europe since the final defeat of Suleiman at the gates of Vienna in 1683.

³ For the full text, including, of course, the language for article LXVII (67), see <http://fletcher.tufts.edu/multi/texts/historical/westphalia.txt>.

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The Bibliography contains not only all the works referenced in the book but also others to help you explore research on international relations more thoroughly. Examine the Bibliography for other readings that interest you.

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Glossary of Key Terms

Absolute advantage: The ability to produce a good or service at a lower cost than anyone else.

Adverse selection: The process of making a choice—for instance picking a president because of his or her good record in managing an economy—that results in bad outcomes. The president chosen for economic prowess must also, for instance, make foreign policy choices over which he or she may be incompetent. In markets, offering easy credit, for example, may result in disproportionately attracting “bad” customers—that is, those who pay on credit and then fail to meet their obligations.

Alliances: Agreements or treaties among states promising specific action under stated contingent conditions with those conditions generally related to the circumstances under which the signatories will use military force on each others behalf.

Anarchic/Anarchy: A structuring of the international system in which no supernational authority exists to enforce agreements between states, so that international affairs becomes a self-help system dependent on individual national interests. Anarchy is equivalent to the conditions of a noncooperative game in which promises are not binding and actions are based on self-interest.

Arbitrage: The process of buying goods cheaply in one place and simultaneously selling them in another place at a higher price. Arbitrage is a way to equalize prices in different places by increasing supply where it is scarce (i.e., the price is high) and reducing supply where it is cheap (that is, where supply initially is abundant).

Arms race: Competition between two or more states characterized by a reciprocal and ever-increasing acquisition of arms by each state in response to the arms procurement or foreign policy actions of the other state or states engaged in the competition.

Asset specificity: The specialization of an asset so that its productive capacity in one sector does not translate into comparable productive

capacity in another sector.

Assumptions: The group of simplifying conditions under which a theory is expected to be a helpful tool for explaining and predicting the phenomena with which it is concerned.

Asymmetric information (or uncertainty): Information that can lead entirely rational actors to different conclusions about what they can expect to gain or lose. One player can know information that another player does not know. Players can be uncertain about the payoffs expected at different terminal nodes for other players or they can lack information about the history of play prior to the choice node at which they find themselves.

Audience costs: Costs imposed on a leader by his or her constituents—the audience—if he or she fails to carry out a threat.

Backward induction: A method for solving extensive form games. Individuals interested in solving an extensive form game through backward induction must begin at the terminal nodes and work their way back to the beginning of the game, identifying at each node the response that is the best choice at that juncture for the relevant player given what that player can anticipate about the subsequent choices of all other players.

Balance of power: The theory that an equal distribution of power influences international peace and stability.

Bayes' rule: Bayes' rule calculates the probability of an outcome conditional on a given circumstance or event. It is used in game theory as a way to assess learning. Since prior moves by players can reveal information about their preferences or expected payoffs, Bayes' rule allows analysts to evaluate how consistent observed actions by others are with prior expectations (see **beliefs**) about what the others want, thereby learning to adjust probability estimates about their likely subsequent actions.

Beliefs: In games played with uncertainty, players attach probabilities to alternative possibilities regarding uncertain information. Those probabilities are called beliefs and reflect a player's perception of the situation he or she is in. Beliefs can be adjusted in games by applying Bayes' rule to evaluate the degree of consistency between actions and prior beliefs.

Benefits: The things of value, both tangible and intangible, that actors receive as a consequence of their actions.

Best reply: From each choice point in a game, a player's best reply is its expected payoff maximizing choice given the prior moves by other players. A best reply is chosen by looking ahead, using backward induction, so as to get the best outcome from the choice point forward given what others have done and are expected to do to maximize their own expected utility.

Bipolar/Bipolarity: A structuring of the international system in which international politics is dominated by two powerful states, with all other states associated with one of the two powers. There is general agreement that bipolar systems induce less uncertainty among states than do multipolar systems.

Blocking coalition: A coalition strong enough to prevent the formation of a winning coalition but not strong enough to win on its own. See also **winning coalition**.

Branches: The choices in an extensive form game, such that no more than one branch can enter a choice node or terminal node, indicating that there is a unique sequence of branches to each choice point in the game.

Bretton Woods Agreement: The backbone of the international economy from the end of World War II until it was dismantled by Richard Nixon in 1971. The agreement pegged the US dollar to gold so that one ounce of gold was fixed at \$35. The United States guaranteed that it would exchange dollars for gold at this rate. Bretton Woods also established the International Monetary Fund and the International Bank for Reconstruction and Development, which evolved into the World Bank.

Budget constraint: The limit on resources that a government (or a household) can spend.

Capital mobility: The ease with which money and other forms of investment can be moved from one industry or locale to another.

Capitalism: The economic ideal that the "hidden hand" of market forces produce efficient growth and prosperity.

Case studies: Evaluations of a theory through the close scrutiny of a single event and its associated details.

Cheap talk: Actions or signals in a game that are costless to the player issuing them.

Cheating: Acting contrary to an agreement. Violating a promise or contractual obligation.

Choice nodes: Points in a game at which a player must choose an action.

Circular indifference curve: Curve made up of all the points in a two-dimensional space that are equidistant from a player's ideal point. A circular indifference curve has the characteristic that the ideal point is located at the center so that the farther a point is from the center, the less valued it is.

Civil liberties: The basic rights associated with holding and expressing beliefs and views within society.

Climate cycle: Earth's climate naturally varies over a long span of time, warming and cooling in response to natural changes. Debate about climate change is partially about how much of global warming is due to the natural climate cycle of the earth and how much is due to human activity.

Club goods: Goods (products, services, policy consequences) that are excludable but nonrival. See **excludable** and **nonexcludable** as well as **rival goods** and **nonrival goods**.

Collective action problem: The difficulty in coordinating many people to produce a benefit they all will enjoy if it is produced. This problem (see **free riding** and **cheating**) can lead to the underprovision of public goods that would benefit everyone.

Colonial power: The domination of a people and territory by occupation or governance by an external power.

Common knowledge: An information condition that says, "I know something and you know something, you know that I know that something, I know that you know that I know that something, you know that I know that you know that I know," and so forth.

Common-pool resources: Goods that are nonexcludable but are rival.

Communism: The economic ideal is that each individual will contribute to society according to his or her ability and each will receive whatever he or she needs from society in return.

Comparative advantage: The relative efficiency with which resources can be employed to produce goods or services (X and Y) such that A is relatively better at producing X than it is at producing Y compared to B, thereby conferring comparative advantage on A in the production of X.

Complacent opponents: Individuals or groups that would rather tolerate being taken advantage of by the government than engage in terrorist action.

Complete and perfect information: Complete information means knowing

the history of play in a game—that is, all prior moves. Perfect information means knowing the value of the payoffs to each player at all terminal nodes of the game. Games with complete and perfect information contain no uncertainty.

Compliance: Acting in accordance with the terms of an agreement.

Constituents: Individuals who are represented by a government official who needs their support to stay in office.

Constructivism: A theory of international relations based on the formation of values and preferences by nations or by individuals. Constructivism seeks to explain the origin of preferences and how preferences (rather than expectations) change with experience.

Cooperative game theory: A game theory that assumes that promises made between actors are binding (meaning they will be kept). Cooperative game theory is especially useful for working with problems in which no player has an incentive to renege on promises or in which contracts are assured of being enforced.

Coordination: Collective action by two or more decision makers intended to lead to common or complementary strategic choices.

Coordination goods: Public goods that facilitate groups of people coming together, exchanging views, and coordinating their actions; these include a free press, free speech, and freedom of assembly.

Costly signal: An action or signal in a game that is costly to the player that sends it because in taking the action the sender gives up or spends something that the sender values.

Costs: The price associated with taking an action or not taking it. Costs must be subtracted from the benefits of actions to evaluate the net gain or loss. See also **opportunity cost** and **transaction costs**.

Credible commitment: Promise that the other player believes will be carried out because this promise advances the self-interests of the actor giving the promise.

Currency convertibility: The situation in which it is possible to change one country's unit of currency into another country's unit of currency without restrictions.

Currency peg: Tying the value of one currency to fluctuations in the value of a different currency.

Deep agreements: International agreements that call for significant, costly changes in behavior by those who accept the agreement.

Demand curves: A curve showing the response of consumers to changing prices. See also **supply curves**.

Democratic peace: A body of empirical regularities that indicates that democracies tend not to fight wars with one another but do fight with nondemocratic states.

Democratization: A process by which a nondemocratic state undergoes a transition to a democracy.

Dependent variable: A thing to be explained by a theory.

Deterrence: The strategy designed to persuade an adversary not to take an action that it otherwise would take.

Dissatisfaction: The degree of displeasure a player attaches to a given state of affairs.

Distribution: The allocation of resources across individuals or groups.

Dollarization: When a country uses the US dollar as its currency for all or much of its exchange.

Domestic politics: Competition over political or governmental office, ideas, policies, and the allocation of resources within a nation's borders.

Dominant strategy: A strategy that a player prefers to pursue no matter what response other players are anticipated to make. See also **strategy**.

Economic rights: A body of human rights that relate to economic well-being, including, for instance, the right to food, clothing, shelter, health care, and the right to work.

Empirical accuracy: How well the facts fit a theory's predictions.

Endogenous: An action (e.g., making a decision) based on the logic of the situation so that, for instance, the value of endogenous variables is a choice rather than an independent fact. See **exogenous**.

Equilibrium price: The price determined by the intersection of supply and demand curves for a product or service.

Essential actors: Actors with sufficient power that they can turn at least one losing coalition into a blocking coalition.

Ex ante: Before the consequences are known. This is how decisions are made in reality.

Ex post: With hindsight; after the consequences are known. This is not how players make decisions; assuming that they do is a fallacy.

Exchange rates: The prices at which one currency can be used to purchase another currency.

Excludable: A good or service for which it is possible to choose who can

consume it and who cannot. It is possible at low or no cost to prevent anyone from consuming the good. See **nonexcludable**.

Existence claims: Weak claims that contend that an outcome can (but need not) occur following specified conditions.

Exogenous: An action (e.g., making a decision) that is not dictated by the logic of the situation so that, for instance, the value of exogenous variables is an independent fact. See **endogenous**.

Expansionism: The acquisition of territory by a country through purchase or conquest.

Expected utility: The value obtained by evaluating the various consequences, in terms of benefits minus costs, that can arise from a specified action; multiplying each possible consequence by the probability that it will arise; and then adding up these quantities across all the various consequences that have a chance of occurring given the chosen action. This value can be calculated before the action is taken and can be compared to the expected utility of alternative actions that could be chosen so that the decision maker can pick the one that yields the greatest expected net gain.

Export: A good or service or a process by which a good or service made in one country is sold to buyers in another country.

Extensive form: Payoffs and moves displayed as a tree. Any number of choices can emanate from any branch of the tree, but only one branch can enter a choice point or choice node. The tree ends in terminal nodes that represent end points in the game.

Externality: Sometimes a transaction involves a cost or a benefit that was not part of the agreement between the parties to the transaction. Such spillovers are not reflected in the price of the good or service involved in the transaction. Negative externalities, such as the pollution consequences of using electricity, for example, involve costs not reflected in the price of the electricity. Positive externalities, such as the pollution-reducing benefits from electricity generated by wind power, for example, are benefits not fully reflected in the price of the electricity.

Factor mobility: The ease with which factors—that is, the elements, including raw materials like land, labor, and capital—of production can be moved from one industry or locale to another.

Factors of production: The essential ingredients for production are land (and other raw materials), labor, and capital.

Fair trade: Economic exchange between nations regulated by the principle that one nation should not sell goods to another nation at a price below the price at which the goods are sold in the producer country. Fair trade also includes the idea that countries should try to achieve a rough balance or equality in their trade with one another.

Falsifiability: That a theory is testable; that is, conditions exist in principle under which we might conclude that the argument is false.

Fascism: A system of totalitarian government in which the government controls all aspects of economic and political activity.

First principle of wing walking: The principle that you should not let go of what you are holding on to (e.g., a theory) unless you have something better to hold on to. Even then, think twice about letting go.

Fiscal policy: Government spending decisions.

Fixed exchange rate: The policy that sets by fiat rather than through market forces the value at which a currency can be exchanged for another currency. Thus, a predetermined quantity of one currency purchases a certain amount of the fixed exchange rate currency.

Flexibility: A policy that tolerates some degree of cheating or violation of the terms of an international agreement in the interest of trying to preserve the agreement.

Float: When a currency's exchange rate fluctuates in response to supply and demand.

Force of law: The degree to which legal agreements or legislations is binding.

Foreign aid: Assistance given by one country or organization to another country, ostensibly to improve conditions in the recipient state.

Foreign direct investments (FDIs): Capital from one country that is invested in the economy of a different country.

Free riding: The act of consuming a nonexcludable good without contributing to the cost of producing it. See **nonexcludable**.

Free trade: Economic exchange between nations in which market forces dictate the price of goods or services exchanged between them.

Freedom goods: See **coordination goods**.

Freedom rights: See **coordination goods**.

Game theory: A mathematical means of evaluating strategic interaction in which the choices of any individual are contingent on expectations about the choices of other individuals.

Gini index: A measure of the inequality of income distribution in a country.

Globalization: The international process that leads to the worldwide integration of market-driven exchanges in goods, services, and capital.

Gravity model: An economic model of trade that creates a baseline expectation of the quantity of trade between countries based on their geographic proximity and on the size of their respective economies.

Greenhouse gases: Those gases that contribute to global warming, including carbon dioxide, methane, nitrous oxide, and water vapor.

Grim trigger: A punishment strategy in which a player who has defected or otherwise punished a second player is itself punished by that player throughout the remainder of the game no matter what type of behavior the first player displays thereafter.

Heckscher-Ohlin theorem: The mix of a country's exports and imports is shaped by the relative abundance of the factors of production in its economy. For instance, countries with a relative abundance of capital tend to export products that rely on the intensive use of capital and import goods that rely on the intensive use of labor, their scarce factor of production.

Hegemonic/Hegemon: A state more powerful than any other or any plausible alignment of other states.

Hierarchy: An ordering of states according to control over some relevant dimension in international affairs, such as the setting of rules or norms of international interaction.

Human capital: People with productive skills and abilities derived from education and good health—that is, skilled, educated people.

Human rights: A broad array of civil, political, economic, and social rights attributed to individuals by a series of international treaties, each, in principle if not in practice, with the force of law behind them.

Hypotheses: Predictions that represent a theory's explanation of a portion of reality.

Ideal point: The most-preferred resolution of an issue or issues for a single decision maker. The ideal point is the policy position at which a decision maker will receive the most utility.

Import: A good or service or a process by which a good or service made in one country is purchased by buyers in another country.

Incentive compatible: A constraint on decision making that makes it in the interest of each player to choose mutually beneficial strategies. Incentive

compatibility helps solve principal-agent problems because this constraint ensures that the principal and the agent each prefers to act in manner that benefits both rather than just one. Institutions or other mechanisms designed to constrain choices to be incentive compatible ensure that players advance their self-interest by truthfully revealing any relevant private information they possess.

Independent variables: Arrays of things that we think will provide us with all or part of the explanation of the different values taken on by the dependent variable.

Indifference curve: Any curve made up of all the points in a two-dimensional space that are equidistant from a player's ideal point so that the player is equally happy with any combination of values on the set of dimensions provided they fall on the same indifference curve. See **circular indifference curve**.

Indivisible good: Goods that cannot be divided in their consumption.

Inelastic demand: Demand for a good or service that is not (or is minimally) responsive to a change in price.

Inessential actor: Actor that cannot turn a losing coalition into a winning or blocking coalition.

Instability: Changes in the composition of the international system, especially changes involving the disappearance or emergence of key states following large wars.

Internal consistency: The assumptions do not contradict one another, and the predictions derived from the theory follow logically from the assumptions.

Internal inconsistencies: Assumptions in a theory that contradict one another, and predictions said to be derived from the theory that do not follow logically from the assumptions.

International law: A body of law, generally codified in treaties, that applies to relations between states or between citizens in different states.

International organizations: Entities or structures, such as the United Nations or the World Trade Organization (WTO), formed by agreement among member sovereign states.

International regimes: International institutions, rules, regulations, and norms. This constitutes a generic category (subsuming international law and international organizations) intended to promote the importance of ideas in international politics.

International relations: International relations is conventionally thought of as competition over political or governmental office, ideas, policies, and resources between states. Here, international relations is viewed as the process by which foreign policy leaders balance their ambition to pursue particular policy objectives vis-à-vis other states against their need to avoid internal and external threats to their political survival.

Kleptocracy: A form of government based on the leadership's stealing from the state.

Labor mobility: The ease with which labor can be moved from one industry or locale to another.

Law of diminishing returns: In producing any goods or services, the addition of one factor of production, while holding the quantity of all other factors of production constant, eventually leads to a lower per-unit return.

Legitimation: The process by which a norm or regime comes to be seen as authoritative by a community.

Liberalism: A theory of international relations that assumes that states can cooperate with one another through international regimes or through assurances that agreements will be enforced by dominant (hegemonic) powers.

Loyalty norm: In selectorate theory, the idea that coalition members remain loyal to the incumbent rather than defecting to a rival as long as their expected net gain from sticking with the incumbent equals or exceeds their expected net gain from defecting to a rival. The larger the ratio of winning coalition size to selectorate size, the weaker the loyalty norm is.

Luxury goods: Goods or services that are deemed not to be essential and that usually are thought to be expensive.

Majority rule: In a national context, the convention that the position with more than half of the votes wins. In an international context, the convention that the position accruing the majority of the power that each of the stakeholders controls in the context of the issue is the chosen position.

Marginal cost: The effect on total cost of a good or service that results from an increase of one unit in the production of the good. Marginal cost reflects the additional resources expended to produce one more unit of a good.

Median voter theorem: If preferences are single peaked—an issue is

unidimensional—all choosers choose sincerely based on their preferences and a majority is required to win; the position of the median voter is the winning position in a contest with any alternative.

Mercantilism: A political economy system driven by pursuit of trade surpluses (usually associated with the acquisition of precious metals) that encouraged colonialism and monopoly control over exports and imports for national governmental gain.

Mixed strategy: The probabilistic choice of actions in a game to make other players indifferent across their choice of actions so as, for instance, to eliminate or minimize distributional issues that might otherwise give other players an advantage.

Monetary policy: The determination of the supply of money and its rate of growth, often done by a central bank or a currency board, but sometimes in the control of politicians who manipulate the supply of money for their own political advantage.

Monitoring: Keeping track of a player's actions to determine whether it is in compliance with expectations.

Moral hazard: In situations with asymmetric information—that is, uncertainty—a moral hazard arises when a person exploits the asymmetry in information to take risks, for example, that result in costs on others rather than costs to the person taking the risk.

Multiple equilibria: More than one set of strategies from which no player has a unilateral incentive to switch to some other strategy. See also **Nash equilibrium**.

Multipolarity: A structuring of the international system in which international politics is dominated by three or more powerful states, with all other states associated with one of the power poles. There is general agreement that multipolar systems induce more uncertainty among states than do bipolar systems.

Nash equilibrium: A set of strategies in a game such that no player has a unilateral incentive to switch to another strategy. Every finite game has at least one Nash equilibrium in mixed strategies or pure strategy and may have more than one in pure strategies and mixed strategies.

Nation building: The process of altering a country's form of governance, usually with the intention of making the country more democratic and economically more prosperous.

National interest: The set of objectives that enhances the welfare of the

state. Usually the national interest is thought of in terms of protecting sovereignty, maximizing security or power, and improving national wealth. When two or more issues are linked together, there may be many conflicting views of the national interest.

National security: In neorealism, how much military might a state has amassed to ward off threats by other states and thereby secure its survival as a sovereign state.

Natural resource curse: A country's possession of natural resources that require relatively little labor to convert them into income-producing products (e.g., having lots of revenue from oil or gold or diamonds) has the consequence of making a few people rich and many more people poor.

Neorealism: A theory of international relations in which states are assumed to maximize their security in an anarchic, self-help world.

Necessary and sufficient condition: If not A, then not B, and if A, then B.

Necessary condition: If not A, then not B.

Negative externality: See **externality**.

Neorealism: A theory that assumes that states are rational, unitary actors operating within an anarchic international system. These states are first and foremost interested in their prospects of survival. Therefore, neorealist states always take whatever actions they can to make themselves as secure as possible against foreign threats.

Nonaggression pact: An alliance between two or more states in which the signatories stipulate that if any one of them is attacked the others will not join the side that attacked their partner.

Noncooperative game theory: A game theory that assumes that decision makers will cooperate with each other only when it is in their self-interests to do so. In noncooperative games, promises are not inherently binding.

Nonexcludable: A type of good or service that anyone in a defined set of people can use even though others are also using it. It is not possible (or, in reality, it is extremely expensive) to prevent anyone from consuming the good.

Nonrival goods: Nonrival goods cannot be used up.

Nontariff barriers: Measures other than tariffs designed to reduce foreign competition.

Normal form: Payoffs displayed in a matrix, showing the costs and benefits

associated with the alternative strategies of the game but not showing the sequence of moves in the game. See also **game theory**.

Norms: Practices widely observed by custom rather than as a matter of law.

Off the equilibrium path: Choices of actions in a game tree that are not actually made by the players; they are not part of the equilibrium path but are part of the equilibrium strategy and therefore constitute actions not taken that shape what happens.

Opportunity cost: The price in terms of the forgone alternative courses of action or use of resources.

Pacific dove hypothesis: The hypothesis that, if a weak state prefers to negotiate rather than force an adversary to capitulate (i.e., it is a dove) and also prefers to capitulate rather than retaliate if attacked (i.e., it is pacific), then that state is especially likely to initiate violence.

Pareto efficient: A choice that is not Pareto dominated by any other choice. This means that switching to some other choice makes at least one person worse off.

Pareto improvement: A type of outcome that is mutually beneficial.

Pareto inferior: A type of outcome in which at least one player is worse off. The prisoner's dilemma is a classic example of a game with a Pareto inferior outcome.

Parsimony: The principle that the more events or facts a theory can explain with a limited set of assumptions, the more useful the theory is.

Path dependence: The extent to which chance prior events or choices determine the future course of events or choices.

Perceptions: The subjective interpretation of events and actions. How people interpret information and their beliefs about the meaning of the actions taken by others. See **beliefs**.

Polarity: See **bipolar/bipolarity**, **multipolarity**, and **unipolarity**.

Political rights: Specific rights related to the expression and implementation of political thoughts and ideas. Political rights, recognized in international human rights treaties, include, for instance, the right to peacefully assemble, the right to vote, the right to form political parties, and the right to compete for positions of authority.

Politics: The domain of competition among groups and individuals for special advantages, particularly over control of power and wealth. See also **domestic politics**.

Polity Index: An index that measures the extent to which a government

assures competitive participation in the leader-selection process (with competitive recruitment of leaders), constrains leaders, and makes the process open to a broad segment of the population. It can be used as a measure of democratization.

Pooling equilibrium: In a situation with incomplete information, equilibrium behavior such that people of different types nevertheless choose the same actions. Pooling equilibria prevent updating or learning about player types since all types behave the same way.

Positive externality: See **externality**.

Posterior belief: The updated belief about a player's type, using Bayes' rule, after observing behavior that fully or partially separates types. See **updated belief**, **Bayes' rule**, **separating equilibria**, and **pooling equilibria**.

Power: The ability to make others do something they otherwise would not do.

Power transition theory: A theory of great power wars based on the idea that war is most likely when a challenger rises in power, equaling and then overtaking the dominant state. In this theory, the focus of attention is on the authority to set the rules and norms of international interactions.

Preferences: The ordering of individual desires.

Preferred-to set: A set of outcomes all of which a player prefers to some fixed alternative, often called a recursion point, such as the status quo. The points closer to the recursion point than the points on a player's indifference curve.

Principal-agent problem: Principals, such as voters, often have less information than the agents—such as elected officials—they choose to act on their behalf. Agent interests may differ from the interests of their principal or principals. Principals have a difficult time working out whether the actions of their agents deviate from what the principals want because the circumstances warrant it, because the agent is incompetent, or because the agent is taking advantage. Moral hazard and adverse selection are two prospective elements in principal-agent relations that can lead to significant problems.

Prior beliefs: A player's beliefs about another player's type before action that facilitates forming revised beliefs take place. See **updated belief**, **Bayes' rule**, and **posterior belief**.

Prisoner's dilemma: A game with a dominant strategy equilibrium that is

Pareto inferior; that is, it will end by disadvantaging both players. The game is indicative of problems of mistrust when promises are not credible.

Private goods: Goods or things that are both rival (e.g., divisible, depletable) and excludable so that by belonging to one person they cannot also belong to another person.

Probability: The chance or likelihood that a particular action or event will take place. If all possible events or circumstances are specified, then the sum of the probabilities of the events or circumstances must be 1.

Production possibility frontier: The maximum mix of goods that can be produced given the available resources.

Productivity: The ratio of output to the input factors of production.

Property rights: A crucial right that reflects the ability of individuals to own property that cannot be confiscated or expropriated by government. Without property rights and the attendant opportunity to enjoy the fruits of one's efforts, actions to improve social welfare are not incentive compatible. Instead, there is a great temptation to free ride on the efforts of others.

Protectionism: A trade policy designed to protect the interests of select industries or workers or capital at the expense of foreign competition.

Public goods: Goods that are nonexcludable and nonrival.

Public policies: Government decisions on how to distribute public and private goods.

Puppet governments: Governments imposed on countries by a foreign nation so that they will follow the policies of that nation.

Pure strategy: A strategy that involves choosing to implement actions for sure rather than probabilistically.

Rationality: A rational person does what she believes is in her best interest. Rational people have connected, transitive preferences and act on them, taking constraints into account.

Receptivity to trade: The extent to which a country's policies make it open to imports from other countries.

Reflection: Learning to see oneself as others see you.

Reluctant terrorists: People who engage in terrorism because they do not believe that the government would negotiate with them in good faith if they tried to resolve their problems through negotiation rather than through violence.

Rent-seeking: Extracting resources from the many through corruption and turning them over to the few loyal coalition members.

Reputation: A belief about how a nation will respond to given situations based on its repeated pattern of responses to similar situations in the past.

Resource curse: See **natural resource curse**.

Resurrection hypothesis: The supposition that if an actor faces virtually certain extermination by continuing to do whatever it is doing, then it will not be reluctant to undertake some other very risky action in the hope of salvaging itself because there is very little remaining downside to its taking big risks.

Revealed preferences: The assumption that ex ante preferences are revealed by ex post behavior. This can be a very risky basis for inferring preferences about politics.

Reverse causality: A situation in which the supposed effect is actually the cause and vice versa. A classic example is that Christmas tree sales are spurred by the expectation that Christmas is coming.

Rhetoric: The effort to persuade by clever use of language as distinct from the use of logic and evidence.

Risk acceptant: Favoring the risky choice over the sure-thing outcome even when the sure thing and the risky choice have the same exact expected value.

Risk averse: Favoring the sure-thing outcome over the risky choice even if the risky choice and the sure thing have the same exact expected value.

Risk neutral: Being indifferent between a sure thing and a risky choice when the risky choice and the sure thing have the same exact expected value.

Rival goods: Rival goods can be used up. They are depletable.

Role redefinition: The re-creation of a decision maker's or nation's identity as a function of the part it is assigned in an international organization or series of interactions.

Rule of law: A form of governance in which law is blind so that knowing to whom it is applied does not influence how it is applied. The procedures are made in accordance with known and accepted legal principles.

Salience: The degree of focus or significance attached to an issue, choice, or situation.

Sanctioning: The use of punishment, usually through economic means, by one or more governments in an attempt to alter the behavior of another government.

Scientific method: Evaluating arguments in terms of their logical consistency and in terms of the extent to which observational or experimental evidence is consistent with the predictions that they logically imply.

Security dilemma: An increase in a state's power can actually make the state weaker in the long run. This happens if the increase in power alarms rivals and mobilizes them to form an opposition alliance; a coalition or alliance of states will come together to beat back a growing state if that state's power threatens to become large enough that others face a possible loss of sovereignty.

Selection bias: Picking cases because they are consistent with a theory, thus eliminating cases that might refute the theory.

Selection effects: The ways in which cases or observations are divided over outcomes because of off-the-equilibrium-path expectations (i.e., because of counterfactual circumstances).

Selectorate: The citizens of a state with a legal say in choosing the leadership.

Selectorate theory: An example of the strategic perspective. A theory that posits that variations in the size of a polity's political institutions can explain many facets of international interactions: warfare capabilities, the uses of foreign aid and military intervention to encourage or stymie democratization, the democratic peace, and why democracies are willing to fight wars of imperial and colonial expansion and are even more prepared than autocrats to overthrow foreign rivals.

Self-interest: The interest of individuals, especially leaders in the international relations context, such that leaders do what is good for them rather than doing what is good for the nation or for others if it is not also good for them.

Separating equilibrium: In a situation with incomplete information, equilibrium behavior such that people of different types choose differently, making it possible for other players to update, at least partially, about player types based on differences in their actions.

Shadow of the future: The value a player attaches to future benefits as compared to present benefits.

Shallow agreements: International accords that players find easy to comply with since the agreement does not ask the signatories to undertake costly changes in behavior.

Single-peaked preferences: Preferences that as a group that decline with Euclidean distance from an actor's ideal point. The alternatives can be ordered spatially such that the farther a choice is from an actor's ideal point, the less preferred that choice is to the actor.

Sovereignty: The right and authority to rule within a specified, usually geographical domain.

Spatial models: A class of abstract perspectives that assume that we can locate decision makers and their policy preferences either on a line (along a continuum) or in a space that includes more than one dimension.

Specialization: The economic principle of limiting the range of productive activities one engages in to use one's factors of production as efficiently as possible.

Stability: The preservations of the sovereignty of key states in the international system.

States: The only political entity endowed with the sovereign authority and the absolute right to use force to enforce agreements or contracts within its borders and to protect its borders from external threats or incursions. Interchangeable with nation-state.

Sticky: Not easily changed. Applied to institution and capital investments.

Stolper-Samuelson theorem: If both labor and capital are mobile, then the factor of production that is more intensively used to make a product enjoys a return that is even larger than the increased price the product commands.

Strategic perspective: A theoretical approach that views individuals as choosing their actions by taking into account the anticipated actions and responses of others with the intention of maximizing their own welfare.

Strategy: A complete plan of action for every contingency in a game.

Subgame perfect Nash equilibrium: The Nash equilibrium found by a player's looking ahead at each choice node and considering his or her options and also the choices that other players will subsequently have in the game. At each choice node, the player chooses his or her best move given what he or she expects the other player or players to do from that point in the game onward.

Sufficient condition: If A, then B.

Supply curves: Curves showing how producers respond (the quantity supplied) to changing prices, provided that the cost of additional production does not exceed the price. (See also **demand curves**.)

Tariffs: Government taxes or levies on imported goods or services that are not also applied to comparable products or services that are produced domestically.

Terminal node: Nodes at which the game ends.

Terrorism: Any act of violence undertaken for the purpose of altering a government's policies such that the violence targets those who do not actually have the personal authority to alter or enforce governmental policy.

Testing: Checking the hypotheses of a theory for empirical accuracy and checking its assumptions for internal consistency.

Theories: Prospective explanations of reality. They are deductive, and they consist of a set of assumptions that limits how we view reality.

Third-party interventions: The military intervention by an outside nation in a dispute, usually between internal rivals.

Tie the hands: Policies or other choices by current leaders that constrain the range of choices available to their successors.

Time inconsistency: When one party gives an irreversible benefit (such as a land concession) to the other party today in exchange for a benefit (such as peace) in the future. Almost certainly, the party receiving the irreversible benefit today will exploit it to seek still more concessions before it will deliver on its promises (if it ever does).

Tit for tat: A strategy in which a player echoes whatever its opponent did in the previous move of the game.

Trade: The exchange of goods, services, knowledge, and even culture across vast expanses of geography.

Tragedy of the commons: The overconsumption of a common-pool resource (a resource that is nonexcludable but is rival).

Transaction costs: The price associated with taking actions.

Treaty of Westphalia: The treaty among European nations, signed in 1648, that laid out specifications regarding sovereignty; it remains relevant to international interactions today.

True believers: Terrorists who prefer a winner-takes-all approach to compromising, and so they have no interest in negotiating.

Types: In games with incomplete information, players may not know the preferences or expected payoffs of other players. This uncertainty is said to relate to the player's type—that is, which of several possible preferences or payoffs the player faces.

Uncertainty: See **asymmetric information**.

Unidimensional: One-dimensional; able to be displayed meaningfully on a straight line in a graph.

Unipolarity: A structuring of the international system in which international politics is dominated by one powerful state.

Unitary actors: States that are treated in theories of international relations as single actors or entities so that their internal structures, compositions, or divisions are not relevant to their actions in international affairs.

Universal domain: All possible preference orderings are permissible and lead to a clear social choice given the rule for aggregating individual preferences. Individuals are free to hold any preferences.

Updated belief: A player's modified, posterior belief, reached by applying Bayes' rule to achieve consistency between the observed actions of players of uncertain types and the actions expected at every choice point in the game based on the prior beliefs about their types.

Utility: A cardinal measure of the degree to which one choice is preferred to another as measured by risks.

Variables: Characteristics, events, or ideas that can take on more than one value. See also **dependent variables** and **independent variables**.

Variance: The amount of dispersion of data around the mean for the data. Variance is commonly used to evaluate uncertainty and is measured as the square of the standard deviation.

Veto: The authority to reject a proposed outcome to an issue or policy in dispute even if everyone else agrees to the outcome.

War effort: The amount of resources that a country invests in war—usually measured as military expenditures.

Win sets: The sets of policies that can win relative to the point of comparison—usually the status quo.

Winning coalition: A group of individuals that controls sufficient resources to defeat rival combinations.

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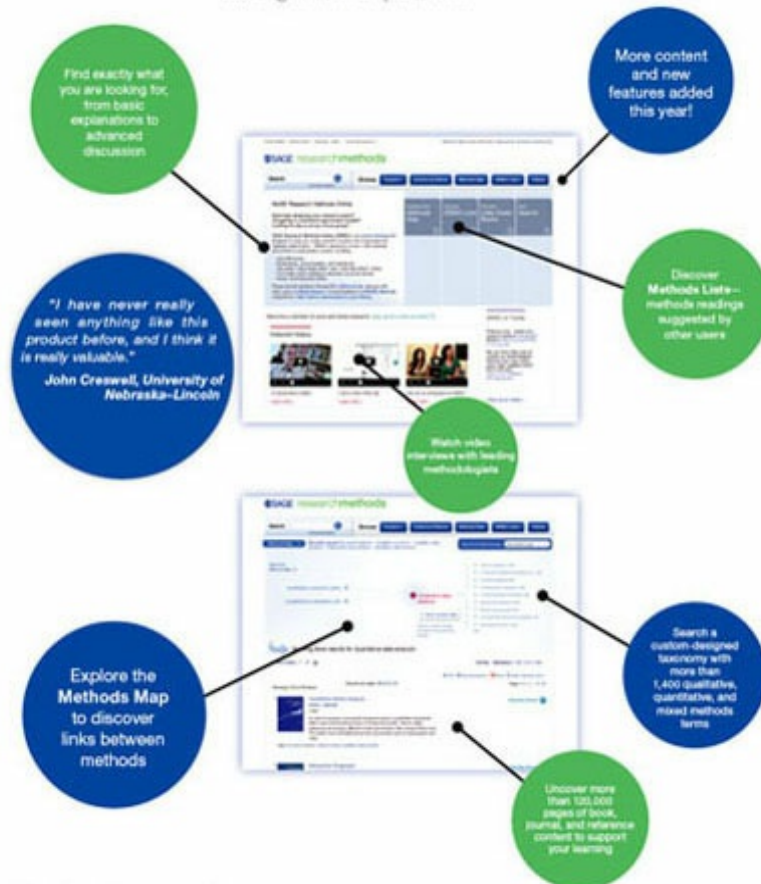
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