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Politics at the Water's Edge

CRISIS BARGAINING AND ELECTORAL COMPETITION

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The role of domestic politics is investigated, using a model to show how domestic opposition during a crisis can reveal to a rival state private information about the incumbent. In particular, the public nature of democratic competition results in the institutionally induced credibility of the message.

Keywords: domestic politics; democratic competition; crisis bargaining; foreign policy; electoral competition; international relations; international crises

Every speech, or practically every speech, made by members of the Labour Party during [the Suez Crisis] could only have the effect, as I have already said—and they must have known it—of weakening Britain in the eyes of Nasser and of the world. And that, no doubt, is why all of the speeches of Mr. Gaitskell, in another place, with, of course, the exception of the first speech, were consistently relayed by Cairo Radio, an honour which was not accorded to speeches of Sir Anthony Eden. That being the case, to suggest that the Government are (*sic*) the main villains of this particular piece is, I think, manifestly absurd.

—Marquess of Salisbury, House of Lords Debate, May 23, 1957

For politicians in democracies, international events often take place at the intersection of partisan and national interests. Consequently, rational actors in democratic states should act in ways that are consistent with their incentives and the knowledge

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that the world is watching. This begs the question of how open political competition at the national level influences, or gets influenced by, the politics between states.

Consider the case of the Berlin crisis and the 1948 presidential election. In the summer of 1948, shortly after Thomas Dewey won the Republican presidential nomination, official word arrived that the Soviet Union had initiated a blockade of the jointly occupied city of Berlin. This international event put the Dewey campaign in an awkward position. On one hand, there were the partisan interests; in particular, for the first time since 1928, the Republicans had a strong presidential candidate, and there was a distinct possibility that they could recapture the White House. On the other hand was the national interest in maintaining a U.S. presence in Berlin, which would be crucial to the Western powers in the new strategic environment of the emerging cold war. Dewey and his advisers were then forced to choose supporting or challenging the sitting president on this hot political issue. If Dewey were simply an office-seeking politician, then there would be little to consider, but clearly that was not the case. In fact, the Berlin crisis led to significant debate within the campaign about what was the appropriate action. As was clear from the historical record, Dewey's decision turned on the weighing of his partisan political interests and the larger national interest (Abels 1959; Vandenberg 1952).

Perhaps the most surprising aspect of the relationship between the Berlin crisis and the 1948 presidential campaign was the widely held belief that Dewey's position on the Berlin crisis would matter in the way the crisis was resolved (Abels 1959). In fact, the Truman administration was so concerned about Dewey's position on the Berlin blockade that it repeatedly sent Under-Secretary of State Lovett to speak to Dewey's senior campaign advisers to ensure their endorsement of Truman's handling of the crisis. But why would Dewey's endorsement or criticism of Truman influence how the sitting president was viewed by the Soviets? How could the opposition's rhetoric have any effect when, at the end of the day, it is just cheap talk? The answer has to do with the relationship between the mixed motives of the opposition and the public nature of open electoral institutions. Given an open electoral system, if the opposition cares about gaining office and the national interest, then its decision to endorse or criticize an incumbent leader can have meaningful effects on the decision making of the foreign rival and the domestic electorate. As such, the opposition's rhetoric can be said to have institutionally induced credibility as a result of pursuing office through open political competition in the shadow of a crisis.

In this article, I develop the argument that the public nature of political competition plays a crucial role in the politics between states by using a game-theoretic signaling model of opposition rhetoric. The logic highlighted by my model shows exactly how electoral institutions shape the incentives of the opposition, thus providing a rationalist foundation for effects of democratic institutions during a crisis. This article proceeds in five sections. First, I distinguish this model from previous work that links rhetoric and domestic politics to crisis behavior. Second, I present my opposition-signaling model and follow that with a discussion of the main results of my analysis. Then I provide a discussion of the value of modeling domestic politics as I do and highlight some empirical implications of my model. Finally, I conclude with a historical illustration of my argument with reference to the Suez crisis of 1956.

DEMOCRACY, INFORMATION, AND CREDIBILITY

Recent literature has argued that uncertainty is an important cause of crises and wars (Kilgour and Zagare 1991; Morrow 1989; Powell 1999). In general, signaling theory shows that where there are costly signals, there are usually conditions that allow credible sharing of private information. However, in a well-known article, Fearon (1995) argues that the incentives leaders face in times of crisis encourage deception and distrust between adversaries. Thus, in a crisis, leaders face a dilemma. Although adversaries have a mutual interest in understanding their opponent's true resolve, given strategic considerations, both leaders also face incentives to misrepresent their position if there are no consequences for dishonesty. This implies two things. First, to understand why a crisis leads to one resolution rather than another, we must understand how the explicit or tacit communication affects a leader's beliefs and behavior. Second, to understand when these signals influence crisis outcomes, we must understand the mechanism that makes them credible.

In international relations, tacit communication has received the most attention. Numerous articles focus on how costly policy choice may influence a rival's beliefs about one's resolve. Examples of such costly actions range from alliance formation to arms races and military mobilization. Alternatively, studies of the effects of explicit communication, such as direct policy statements, have pointed to domestic politics as a potential source of credibility. In particular, audience costs have received considerable attention (Martin 1993; Fearon 1994).

The audience-cost mechanism links foreign policy to the selection and retention of leaders. Audience-cost theory argues that at each moment of a crisis, a leader has many options, such as verbally escalating the crisis, backing down, or starting a war. Whatever action the leader chooses, her choice is known to her domestic constituencies because of the public nature of an international crisis. The domestic costs a leader pays for publicly escalating a crisis and then backing down are her audience costs. These costs are levied by domestic constituencies and are a product of their concerns about whether the leadership is succeeding at foreign policy (Fearon 1994, 577).

Although not the original intent of the argument, audience costs have been used to motivate a number of claims about the informational effects of democratic regimes in world politics. Democratic regimes are thought to generate higher audience costs because of the greater sensitivity of elected leaders to the punishment of their constituencies. As a result, the domestic politics of foreign policy choices provides leaders of democracies with a credible signaling mechanism and makes them less likely to end up fighting unwanted wars.

But it has been noted that the audience-cost argument lacks a clear rationalist foundation (Sartori 2002; Smith 1998). In response to this critique, Smith (1998) and Guisinger and Smith (2002) present models in which the credibility of the incumbent's diplomatic signal is endogenous to the democratic selection process. Using a cheap-talk framework, both articles develop theories of how a leader's policy statements may be credible in the shadow of a leadership selection institution and thus a mechanism that generates audience costs endogenously.¹ However, both theories depend on some

key assumptions relating leadership tenure to international diplomacy. In Smith, there is the critical assumption that a leader who backs down after making a threat is believed by the voters to be of low competence. This assumption is equivalent to assuming that the electorate automatically punishes a leader for backing down after an escalation, as is noted by Schultz (1999).²

Guisinger and Smith (2002) improve on Smith's (1998) original analysis by identifying a mechanism that links the electorate's foreign policy concerns and the punishment of leaders. In their agent-contingent reputation model, leaders caught in a bluff are removed because a country's welfare is improved by having a leader with a reputation for honesty. As they show in their analysis, if a country's reputation is not directly linked to the reputation of a particular leader, then no audience costs arise, and domestic politics provides no mechanism for informative signaling in a crisis.

Although it takes a first step in incorporating domestic politics into theories of international conflict, this first wave of audience-cost models has paid little attention to other potentially important institutional aspects of democratic competition that may influence international crises. In a series of articles, Kenneth Schultz (1998, 2001) addresses this issue by opening up the "black box" of the state. He starts by modeling the institution of open political competition, focusing on the behavior of a strategic political opposition. In his model, the opposition is endowed with information about the costs of war for the home country and is allowed to act strategically to reveal that information to a foreign rival. Schultz shows that when a second strategic actor has valuable information and the ability to send costly signals, crises are less likely to end in war. These results point to important additional effects of democratic institutions on crisis diplomacy.

However, the opposition-signaling results are based on the assumption that the opposition has a costly and credible signaling device. One may wonder where such a credible device comes from. Because the opposition does not have control over policy, by definition, it cannot tacitly signal its information by forming alliances or mobilizing troops. The obvious alternative is that the opposition can generate audience costs from its policy positions. But unlike the incumbent in Smith (1998) and Guisinger and Smith (2002), the opposition has no policy lever that can reveal its competence or one that can undermine the nation's reputation. In the end, the opposition's claims about the cost of war or the incumbent's competence are unverifiable cheap talk. Yet, within Schultz's (1998, 2001) framework, the opposition's speech is assumed to be a costly act. Although arguments can be made, outside the scope of Schultz's model, as to why the opposition's rhetoric is costly, such arguments do not provide a satisfactory endogenous explanation for the influence of domestic audiences on international crises.

Thus, to date, signaling models that incorporate democratic politics either have ignored specific institutions of democracy and attempted to endogenize the credibility of the threat to the leadership selection process (Smith 1998; Guisinger and Smith

1. The seminal papers on cheap talk are Banks and Sobel (1987), Crawford and Sobel (1982), Farrell (1993), and Farrell and Gibbons (1989a, 1989b). Applications in political science and economics include Austen-Smith (1990), Austen-Smith and Banks (2000), Kydd (2003), Matthews (1989), Morrow (1989), Sartori (2002), and Stien (1989). For a good introduction to cheap-talk theory, see Farrell and Rabin (1996).

2. I would like to thank an anonymous referee for pointing out the relevance of this assumption to my argument.

2002) or have considered the informational implications of the public behavior of an opposition, with the additional assumption that opposition has an exogenously credible and unspecified signaling device (Schultz 1998). In this study, we take the next natural step that integrates these two literatures. First, like Schultz (1998), we explicitly include a well-informed opposition in our analysis of international crises. Second, like Smith (1998) and Guisinger and Smith (2002), we require that the credibility of the signal be endogenous to the institution surrounding decision makers.³ This implies that the modeling assumptions do not allow the opposition to directly affect any player's payoffs, only those players' beliefs. Under these assumptions, we demonstrate how the opposition's rhetoric influences foreign affairs and domestic politics in the shadow of an international crisis. Specifically, we show that the opposition's rhetoric has institutionally induced credibility and, therefore, can significantly affect both international crises and electoral outcomes.

THE MODEL

To understand the role of the opposition's rhetoric in an international crisis, consider a canonical crisis bargaining game in which two countries are trying to divide a contested prize with incomplete information. Call one country *home* and the other *foreign*. We consider the strategic behavior of four players, one from the foreign country (the *rival*) and three from the home country (the *opposition*, the *incumbent*, and the *voters*).⁴ Three distinct components define our crisis interaction. First, there is a signaling phase where the opposition either endorses or criticizes the incumbent. Second, the incumbent leader of the home country and the foreign rival attempt to resolve their dispute through a negotiation, which can be influenced by the rhetoric of the opposition. Finally, given the opposition's crisis rhetoric and the outcome of the international negotiation, the voters select the future leader of the home country. The fundamental strategic element of the game turns on the foreign rival's and the voters' beliefs about the foreign policy competence of the incumbent. A stylized extensive form of this game can be found in Figure 1.

The game starts with the onset of a crisis and a random choice by nature that determines the foreign policy competence of the incumbent and the opposition and, therefore, their respective types, t_i and t_o . Foreign policy competence is the link between domestic and international politics. The foreign rival is interested in the incumbent's foreign policy competence, t_i , because it determines whether an offer in the negotiation phase of the crisis will lead to war or peace. Voters care about t_i because it is assumed to be an important characteristic of leadership. Specifically, we argue that from the voter's perspective, each candidate offers a basket of characteristics that matter to the voters, one of which is their foreign policy competence. This competence is meaningful to voters because it determines the efficiency with which a given candidate

3. We also note that this model moves from modeling crisis as a binary choice to "challenge" or accept the status quo and instead analyze a model in which proposals represent divisions of the disputed good. Therefore, this model also endogenizes the offer strategy of the foreign rival to their information.

4. Index these players by $\{f, o, i, v\}$.

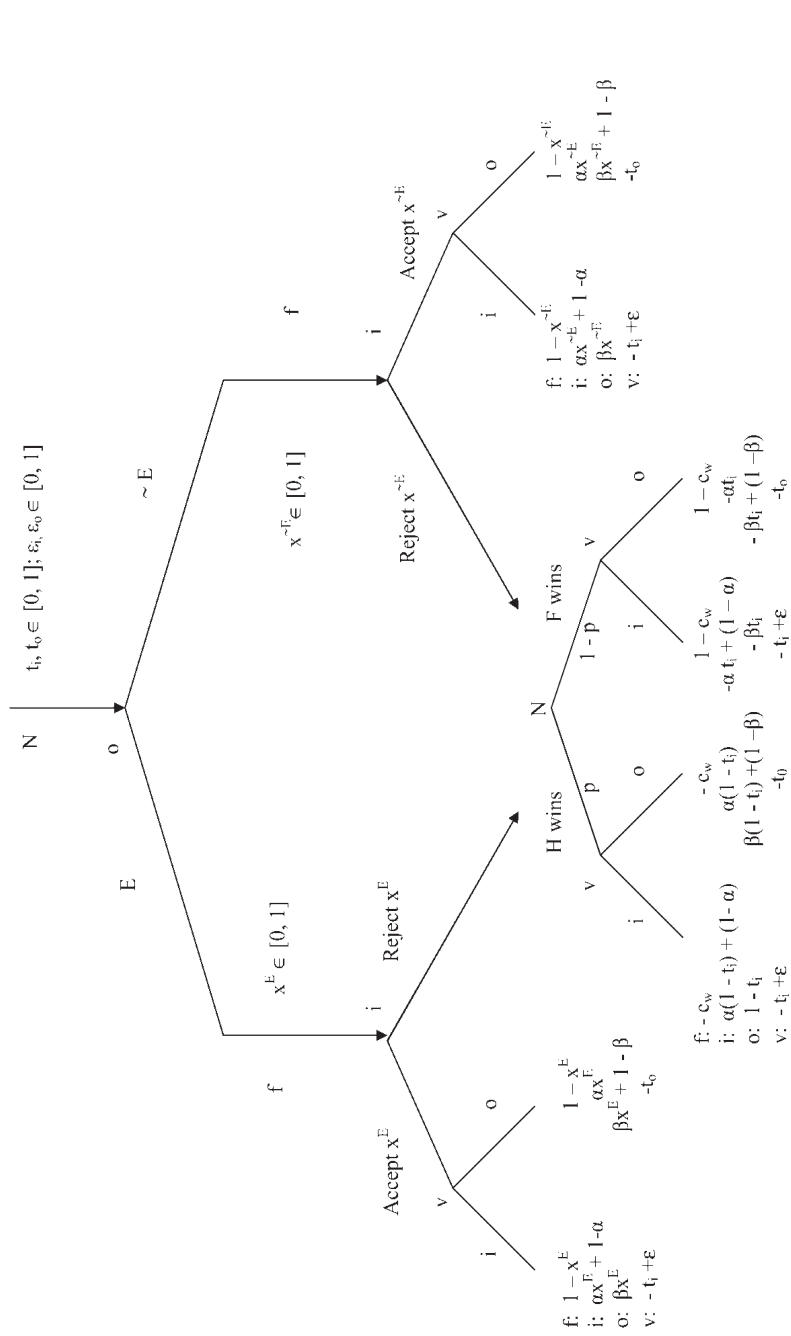


Figure 1: A Stylized Extensive Form of the Opposition-Signaling Game

can use the home country's resources in times of war. One interpretation of t_j is, therefore, the relative cost of a conflict managed by candidate j , if j were in office.

When nature makes its move to determine the types of the incumbent and the opposition, it independently draws the values of t_i and t_o from a uniform distribution on the interval $[0, 1]$. Intuitively, this means that types of the incumbent and the opposition are drawn from a pool of potential candidates in which the possible values of t range between 0 and 1, and on average, the voters and the foreign rival expect t to equal $1/2$.

To capture the idea that the opposition has something meaningful to say about the incumbent, we assume that the incumbent's and opposition's types, t_i and t_o , respectively, are known to all potential candidates. That is, the candidates types are known to both the incumbent and the opposition.

After nature determines the politicians' types, we move to the signaling phase of the game. We consider the case in which the opposition has the simplest possible language: it can either endorse (E) or not endorse ($\sim E$) the incumbent. Because democratic politics is an open process, any message sent by the opposition in the signaling phase is assumed to be received by both the voters and the rival. Therefore, the pure strategy of the opposition can be thought of as assigning a message to each possible pair of incumbent and opposition types.

Once the opposition has sent the signal, the voters and the foreign rival may update their beliefs about the values of t_i and t_o . The rivals and the voters' updated beliefs, given the message of the opposition, are defined by a new cumulative probability function consistent with Bayes's rule when possible. The game then moves to the negotiation phase in which the foreign rival proposes a division of the prize $(1 - x, x)$, where the rival keeps $1 - x$ for itself and offers x to the home country. Thus, any division is uniquely defined by an $x \in [0, 1]$, and the foreign rival's possible pure strategies assign a unique and contingent offer to each message it receives from the opposition.

Next, the negotiations proceed and the incumbent must decide whether to accept or reject the foreign rival's offer (x). This choice is a function of the incumbent's realized type t_i . If the incumbent accepts the offer, then the crisis ends; each country gets its proposed share of the prize, and the game proceeds to the election phase. If the incumbent rejects the offer, a war occurs and the home country wins the entire prize with probability p and pays the relative cost of a war managed by the incumbent, t_i . Note also that the foreign rival pays a fixed and known cost for fighting, c_w . Although the incumbent's pure strategy could be quite complicated, in equilibrium, the incumbent's strategy has a simple cut-point structure that assigns each incumbent type a $q^* \in [0, 1]$, with the characteristic that, if $x < q^*$, the incumbent rejects the offer and accepts otherwise.

When the crisis ends, the voters then learn the terms of the negotiated settlement, if the crisis was peacefully resolved, or see that the conflict escalated to war. At this point, the voters again update their beliefs about the underlying state of the world (t_i, t_o), using Bayes's rule whenever possible, and vote in a two-candidate election. Remember that the voters know that the incumbent's and opposition's types are drawn from the same population of candidates. Let π_j^h be the expected type of politician j , given their beliefs, where their beliefs depend on the history of the game. To make the analysis more tractable, we assume that the electorate's decision is captured by a rep-

TABLE 1
Model Notation

$x, 1 - x$	Home country's (foreign rivals) payoff from a peaceful settlement
p	Home's probability of winning a war
c_w	Foreign rival's cost of war
α, β	Incumbent's (opposition's) foreign policy weight
$E, \sim E$	The opposition message (endorsing or not endorsing the incumbent)
t_i, t_o	The incumbent's and opposition's foreign policy competence
π_i, π_o	Voter's assessment of the incumbent's (opposition's) foreign policy competence

representative voter.⁵ Assume the voter's utility for each candidate is a linearly decreasing function of the winner's type, t_j , and a bias term ε_j . Let $\varepsilon = \varepsilon_i - \varepsilon_o$, and call ε the incumbent advantage. The voter's pure strategy can therefore be understood as assigning a vote, either for the incumbent or the opposition, that is a function of all that they have learned by observing the actions of the opposition, the foreign rival, and the incumbent. We also note that this strategy is deterministic for the voter, but because voters have an unknown incumbency bias, their vote choice appears probabilistic to the candidates and outside observers.⁶

In the electoral game, the incumbent and the opposition are purely office seeking. That is, for both players, their utility for electoral outcomes are

$$u_j = \begin{cases} 1 & \text{if } j \text{ wins} \\ 0 & \text{if } j \text{ loses} \end{cases}.$$

These strategies define an extensive-form game with a set of outcomes $O = \{[0, 1] \times [0, 1] \times \{E, \sim E\} \times [0, 1] \times \{accept, reject\} \times \{incumbent, opposition\}\}$. Although the utilities of the foreign rival and the voters over these outcomes are defined as above, let the total utility for the incumbent (opposition) be a convex combination of the utilities from the negotiation phase and the electoral outcome, where α (respectively, β) and $1 - \alpha$ (respectively, $1 - \beta$), α , and $\beta \in [0, 1]$, are the relative weights of the international and domestic payoffs. The notation of the game is summarized in Table 1.

RESULTS

The perfect Bayesian equilibria of this model fall into two classes: uninformative and informative. An informative equilibrium is one in which the prenegotiation signal of the opposition changes the beliefs of the foreign rival and the electorate.

5. The representative voter choice rule and utility allow this model to capture many different conceptions of the electorate. The voter could be a median voter with an unknown preference. However, the construction of the representative voter captures any sort of voting mechanism in which the probability of retaining the incumbent is increasing in the voter's beliefs about his or her foreign policy "competence."

6. Assume that $\varepsilon \sim U[-.5, .5]$. This assumption implies that the foreign policy competence of a candidate is sufficiently important that it has some affect on the outcome of election.

Uninformative equilibria are those equilibria in which the opposition's message has no influence on the other players' beliefs. Taking the last class first, proposition 1 demonstrates that an uninformative equilibrium always exists.

Proposition 1: There always exists an uninformative equilibrium to the opposition cheap-talk game in which the incumbent plays a cut-point strategy based on its type and the offer x .⁷

Proposition 1 shows that there always exists an uninformative equilibrium by characterizing an equilibrium in which the incumbent is responsive to the offers of the foreign rival. That is, for any given offer between 0 and 1, there is always an equilibrium in which the incumbent plays a cut-point strategy such that an offer $x \geq q^*$ is accepted and an offer $x < q^*$ is rejected, where $q^* \in [0, 1]$.

Before getting to how the public nature of electoral competition leads to informative signaling by the opposition, it is important to consider what is the optimal strategy for the opposition when it faces one audience at a time. First, consider the situation in which the opposition is only signaling to the electorate. Here opposition's signal can only affect their utility from gaining office and, therefore, only considers how its signaling strategy influences its likelihood of electoral success. Proposition 2 shows that when signaling only to the electorate, no information transmission is possible in equilibrium.

Proposition 2: If the opposition is office seeking and there is no crisis, then no information is communicated in equilibrium.

In proposition 2, we have the intuitive result that if rhetoric is aimed at the domestic audience alone, it can never be informative if the opposition has office-seeking preferences. To see why, suppose the opposition played a strategy that truthfully revealed information about the incumbent's type. First, to facilitate a discussion of the opposition's choice problem, let us define two potential classes of incumbents. Because the voters and the foreign rival treat different types of incumbents differently, define the set of incumbents that gets large offers from the foreign rival and has a high probability of being reelected by the voters to be "good" types. Conversely, call the set of incumbent types that gets small offers from the foreign rival and has a low probability of being reelected by the voters "bad" types. Recall that the opposition's utility is only a function of the electoral outcome in proposition 2 and that the opposition's utility is increasing in its probability of gaining office. Also note that if the voters think the incumbent is one of the good types, they vote for the opposition with a lower probability than if they think the incumbent is one of the bad types.

Now consider what it means for the opposition to play an informative strategy in equilibrium. An informative strategy requires the opposition to endorse good incumbents and not endorse bad incumbents. Given that only the domestic electorate is listening to the opposition's rhetoric, it is clear that if the incumbent really is a bad type, the opposition is more than willing to signal that fact to the voters. However, when the

7. Technical statement of propositions and all proofs can be found in the appendix.

incumbent is a good type, the opposition can increase its utility by lying and saying that the good incumbent is a bad type. Therefore, the opposition would rather not tell the truth, and informative signaling cannot be an equilibrium strategy. This special case of our model generates the strictly competitive environment that the signaling literature has shown requires costly signals.

Similarly, the opposition faces a credibility problem if it is signaling just to a foreign rival. In proposition 3, we find a result similar to Fearon (1995) for the opposition.

Proposition 3: If the opposition's utility is strictly increasing in x and only the foreign rival receives the opposition's signal, then no information is communicated in equilibrium.

Proposition 3 shows that the incentive to misrepresent exists for the opposition, as well as the incumbent, when there is no relevant domestic audience for their rhetoric. In this case, the opposition's utility is increasing in x , and x is increasing in the foreign rival's belief about the type of incumbent. Suppose the opposition uses a signaling strategy that is believed by the foreign rival, and suppose the incumbent is a bad type. Now because the foreign rival gives more of the prize to good types of incumbent, the opposition would rather signal that the bad incumbent is really a good type, leading the rival to offer up a larger share of the prize; therefore, informative signaling by the opposition is not rational.

Propositions 2 and 3 show that our model produces results that are consistent with our intuition about costless rhetoric if we were to model an international crisis and an election separately. On the other hand, if the opposition sends a public costless message, both the voters and the foreign rival are "listening in," and the opposition has a sufficient mix of national and office-seeking interests, then the opposition's rhetoric can be informative in equilibrium.

Proposition 4: If the opposition is office seeking, its utility is increasing in x , the incentive compatibility conditions (IC1, IC2) are satisfied, and there is a foreign and domestic audience, then there exists an equilibrium in which the opposition signals information with respect to a cut-point $c^* \in [0, 1]$.

The proof of proposition 4 specifies the exact parameter conditions for an informative and incentive compatible public-signaling strategy.⁸ To grasp the intuition of this result, it is important to get a good understanding of how this equilibrium works. Consider a play of the game in which the incentive compatibility conditions are met. The game starts with nature drawing types for the incumbent and the opposition. The signaling strategy of the opposition is defined by the cut-point $c^* \in [0, 1]$. If nature draws a type for the incumbent such that its value of t_i is greater than the cut-point, the opposition sends the "not endorse" message. Otherwise, it sends the "endorse" message. The

8. In fact, we can prove more than this. Define a cut-point equilibrium to be any equilibrium in which, for all values of the incumbent's type less than a value $c^* \in [0, 1]$, the opposition sends one signal, and for all values of the incumbent's type greater than or equal to c^* , they send the other signal. Then a corollary that follows directly from the proof of proposition 4 is that there is a unique equilibrium cut-point to this game. Uniqueness here further strengthens the opposition-signaling result by demonstrating a unique logic that follows from the opposition's electoral incentives in the shadow of a crisis.

foreign rival then updates its beliefs based on the message and makes a contingent offer. Note that the rival's optimal offer after the endorsement is always greater than or equal to the offer after a nonendorsing signal from the opposition. That is, the foreign rival offers a larger share of the prize to incumbents with opposition endorsement. The incumbent then plays a cut-point strategy. Given this strategy, there is a mapping from each possible offer by the foreign rival to the type of incumbent that is indifferent between accepting and rejecting that offer. Let $t(x)$ be the type of incumbent indifferent between accepting and rejecting an offer x . So all types greater than $t(x)$ accept an offer x , and all types less than $t(x)$ reject that offer.

The game then moves to the electoral phase, where a representative voter votes either for the incumbent or the opposition, given updated beliefs, the history of the game, and the incumbency bias ϵ . Note that the voters also reward endorsed incumbents. In any equilibrium, the better their opinion is about the incumbent's foreign policy competence, the higher the probability that the incumbent is reelected. The equilibrium shows that, given the opposition's electoral and foreign policy preferences, if the effect of supporting the incumbent produces a sufficiently large offer from the foreign rival, when the incumbent's type is of high quality, then the opposition is willing to trade off electoral gains for a peaceful resolution of the international dispute. When the incumbent is of lower quality, however, the opposition is willing to sacrifice its country's national interest for electoral gain.

What exactly is it about the public signaling that is special? In terms of the traditional Crawford and Sobel (1982) result, propositions 2 and 3 describe cases in which the opposition's preferences are opposed to the rival and the voters, taken individually, and as a result, no information can be conveyed in equilibrium. However, when both audiences are "listening," there is sufficient common interest between this new mixed audience of voters and rivals and the opposition to make an informative signal incentive compatible. That is, the institution of open political competition induces a credible signaling strategy by forcing the opposition to signal to more than one audience at a time. Thus, when the opposition is endorsing the incumbent, it leads to larger international gains but, at the same time, decreases the prospects of gaining office. Similarly, not endorsing the incumbent increases the opposition's electoral prospects at the expense of the size of the international settlement.

In general, the equilibrium shows that one way that open democratic institutions can induce credibility in the opposition's signal is by creating a situation in which the differing reactions of domestic and international actors to the same information about the incumbent influence the opposition's utilities on multiple dimensions. As a result, the institutional structure of the domestic political process creates an environment where an office-seeking and "patriotic" opposition becomes an unbiased source of information.

From proposition 1, we have already established that at least one other equilibrium exists in this game; therefore, equilibrium selection becomes important. Traditional equilibrium refinements, such as the intuitive criteria and divinity, have no teeth in a game such as the one analyzed here. However, Farrell's (1993) neologism refinement does eliminate the uninformative equilibrium in this game. Using the neologism

TABLE 2
Numerical Examples of the Informative Equilibrium

<i>Exogenous Parameters</i>				<i>Equilibrium Offers</i>		<i>Opposition Cut-Point</i>
α	β	p	c_w	x_E	x_{-E}	c^*
.4	.5	.2	.35	.329	.179	.183
.4	.65	.175	.2	.243	.081	.126
.6	.4	.3	.35	.445	.345	.12
.75	.65	.25	.1	.292	.167	.034
.8	.2	.2	.5	.39	.24	.24

<i>Exogenous Parameters</i>				<i>Election Probabilities</i>	
α	β	p	c_w	Pr (i wins with endorsement)	Pr (i wins without endorsement)
.4	.5	.2	.35	.835	.046
.4	.65	.175	.2	.873	.031
.6	.4	.3	.35	.973	.336
.75	.65	.25	.1	.998	.372
.8	.2	.2	.5	.945	.443

proof-ness refinement in our opposition cheap-talk game, the uninformative equilibrium is ruled out, and we may expect the informative equilibrium to be played when the incentive compatibility conditions are met. To give a better idea of the equilibrium behavior of players in our model, Table 2 provides some examples in which the values for the exogenous variables have been fixed and the equilibrium actions of the players have been calculated.

DISCUSSION

The above analysis implies that domestic political debate and the opposition's rhetoric about foreign policy can have important effects in crisis bargaining. In this section, we go beyond characterizing equilibria and highlight some of the empirical implications of our analysis. We also discuss the role of the three key assumptions that drive our results.

EMPIRICAL IMPLICATIONS

The equilibrium of our model points to a number of empirical implications relating the institution of electoral competition to international crises. One such implication is that democracies "bargain harder" and get "better offers" due to the electoral incentives they face. To see why this is true, first note that in the nondemocratic states, the incumbent does not have to worry about the connection between foreign policy and the

electorate. In that case, the cut-point that makes the incumbent indifferent between accepting and rejecting an offer x is $p - t_i$. Thus, any offer $(1 - x, x)$, such that $x \geq p - t_i$, is accepted, and $x = p - t_i$ is the lower bound on the efficient (peaceful) offers in the crisis. On the other hand, for any set of beliefs of the foreign rival and any offer x , the cut-point for a democracy is $p - t_i + \frac{1 - \alpha}{\alpha}(\pi^a - \pi^r)$, where $(\pi^a - \pi^r)$ is always positive and $\frac{1 - \alpha}{\alpha} \in (0, \infty)$.

This is interesting for two reasons. First, as long as $\pi^a - \pi^r > 0$ (i.e., the policy choice of the incumbent affects the beliefs of the voters), the foreign rival's offer has to be higher to satisfy an equally competent politician from a democracy than from a nondemocracy. Moreover, knowing this, the foreign rival's optimal offer is higher to a democracy than to a nondemocracy in equilibrium. So we can say office-seeking leaders in democracies bargain harder (i.e., they get larger shares in equilibrium). Unlike the traditional models of two-level games, this bargaining advantage does not require that the incumbent subject the agreement to any sort of ratification or coalition approval (Putnam 1988, 440). All that is required to obtain this result is that, of the many things that affect the electorate's decision about for whom to vote, foreign policy competence has some weight.⁹

This model also speaks to the double-edged sword of democratic institutions, information control, and electoral incentives. In his famous quote, de Tocqueville (1945, 234-35) claimed that "foreign politics demand scarcely any of those qualities which are particular to a democracy; they require, on the contrary, the perfect use of almost all those in which it is deficient." Similarly, in the 1960s, Quincy Wright (1965, 842) remarked that "in the game of power diplomacy, democracies pitted against autocracies are at a disadvantage." This model shows that, although there are circumstances when domestic politics can be detrimental to democracies in terms of settlement, the same democratic institution that can lead to this information revelation also creates an incentive for incumbents to bargain harder. The model thus speaks to the following question: what are the effects of open electoral competition on the outcome of crises with democratic targets?

Remark 1: Offers by the foreign rival in both the babbling and the informative equilibrium of the opposition cheap-talk game are greater than the offer from an equivalent bargaining game without elections.

As critics of democracy claim, in the informative equilibrium, the opposition occasionally sends a signal that makes its own state worse off in the crisis than it would have been otherwise. Nevertheless, the absolute size of the equilibrium offers by the foreign

9. Something to note, which follows directly from the higher threshold of democratic representatives at the bargaining table, is that for an incumbent who is facing an electorate that is learning something about his or her type from the international crisis, rejecting an international offer is a costly countersignal that influences the voter's belief about the incumbent's type on the foreign policy dimension. This countersignal also constrains the range of credible messages that can be sent by the opposition in equilibrium (see appendix).

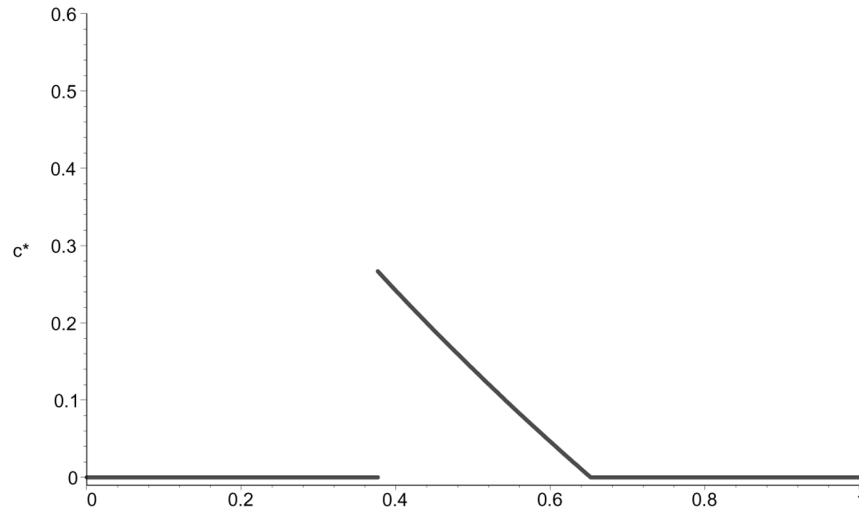


Figure 2: Comparative Statics of c^* as a Function of β for $\alpha = .5$, $p = .6$, $c_w = .5$

rival are ordered such that, if the foreign rival makes an interior offer (i.e., $x \in [0, 1]$), then $x_{nondemocracy}^* < x_{\sim E}^* < x_{babble}^*$, and x_E^* . Remark 1 demonstrates that, regardless of the strategy played in an informative equilibrium, a democratic country gets a better offer than a nondemocrat. This occurs because the incentive compatibility constraint on the opposition's signaling strategy guarantees that the new information added by the cheap-talk signal does not overcome the effect of the foreign rival's knowledge that the incumbent faces electoral incentives. That is, for democracies, the effect of electoral incentives more than compensates for its informational disadvantage in a crisis.

Somewhat surprisingly, we also show that the opposition's rhetoric is least influential when the international issue is either relatively important or relatively trivial in comparison to the gains from holding office. It is in the intermediate range of cases where the opposition's rhetoric has significant international and domestic political effects. That is, there exists a nonmonotonic comparative static between β and the credibility of the signal, which is illustrated in Figure 2. Recall that when $\beta = 1$, the opposition cares only about the foreign policy issue, and when $\beta = 0$, the opposition is purely office seeking. If $\beta = 1/2$, then the opposition would care equally about each. On the x -axis of Figure 2 are values of β , which measure the relative weight of the international and domestic interests. On the y -axis are the corresponding equilibrium values of the cut-point c^* .¹⁰ We see that at extreme values of β , the opposition behaves as if there were only a single audience and does not have a credible signaling strategy. In the

10. Although we have fixed values of the other exogenous parameters, the picture is representative of the relationship in the parameter space of interest.

cases when the opposition has sufficiently mixed motives, however, a credible and costless signaling strategy emerges. Thus, our results imply that any sort of single-minded opposition (i.e., one that cares “too much” about gaining office or the international prize) cannot rhetorically affect the outcomes in either the crisis or the election. We note that this result is different from what Schultz (1998) finds when accounting for national welfare in his model. Although in his analysis, the relative weights between national welfare and electoral concerns affect how much information the opposition’s support reveals, the results here mark when one should expect the opposition’s message to matter at all. That is, Figure 2 shows when public politics can induce the opposition to play a strategy that is both rational and honest in equilibrium.

The figure also shows that political support at the water’s edge is not really about the importance of the international event alone. In cases in which the foreign policy concern is too large relative to the office-seeking incentive, the opposition might support the incumbent, but the support is not credible and relays no new information. From this result the cases in which the opposition’s support in a crisis is most crucial for the national interest when both domestic and international consequences of their decision are important.

Finally, the opposition cheap-talk model is useful for understanding how democratic institutions may lead to credible international communication. To date, most models relating domestic politics to international bargaining have focused on the exogenous audience costs faced by politicians. But what we really want to know is how democratic institutions, such as open political competition, affect international events. What the opposition cheap-talk model demonstrates is that the institution of open political competition can generate a strategic environment where the credibility of the information revealed is endogenous to the public rhetoric surrounding elections. That candidates are, at the same time, seeking the benefits of office and interested in how their country is treated internationally creates a situation in which the opposition has an interest in providing unbiased information to the joint audience of the rival and the voters.

ASSUMPTIONS AND GENERALIZATIONS

As with any model, our results depend on our assumptions. The three key assumptions in our analysis are (1) the opposition’s endorsement or nonendorsement of the incumbent is public knowledge, (2) the opposition has valuable information from the perspective of the foreign rival and the voters, and (3) the opposition’s preferences are multidimensional (i.e., it is interested both in winning the electoral competition and getting its country the largest possible share of the international prize).

Clearly, the assumption that the opposition’s message is knowable to both the electorate and the foreign rival is the most important assumption underlying our results. In fact, another interpretation of propositions 2 and 3 is that if the opposition’s message is not public, or if either the foreign rival or the electorate ignores the opposition, then the informative equilibrium we have characterized breaks down. Yet when this assump-

tion does hold, in combination with conditions found in proposition 4, we get our most interesting result that if there are multiple audiences for the opposition's rhetoric, that can be sufficient for informative signaling. It then follows directly that, under the appropriate conditions, we have an explanation for why democratic institutions lead to the more efficient settlement of international disputes, and this is done without assuming audience costs.

We note, however, that this result need not be seen as being set opposed to the existing literature on audience costs. Instead, the institutionally induced credibility of the opposition's signaling strategy provides an underlying rationale for the costs the opposition may face when endorsing or criticizing an incumbent during a crisis. What we demonstrate is exactly how such costs can arise endogenously from the opposition's incentives when their political rhetoric is on a public stage. Our characterization of the incentive compatibility conditions also goes a step further in identifying more tightly the conditions in which the institutional effects of democracy are likely to play a role when two countries confront each other in a conflict.

Our second key assumption, that the opposition has valuable information to share, is somewhat more restrictive than the first assumption, in that we assume that the opposition knows more about the incumbent's foreign policy competence than does the average voter or the foreign rival. First we note that the results of our analysis would still hold if the opposition does not know the incumbent's type but is simply better informed than the average voter or foreign rival. We believe that such an assumption is reasonable because the opposition has an incentive to learn details about the incumbent as part of its electoral strategy. Alternatively, the opposition is also likely to know more about the incumbent's competence because it frequently interacts with the incumbent in the political arena and, therefore, has more data about the incumbent on which to base its judgment.

However, there could be other motivations for the opposition to choose to endorse or not endorse an incumbent in a crisis that have nothing to do with the incumbent's competence. One may be policy preference. Although beyond the scope of this article, an interesting extension of this model would be one that incorporates differences in policy preferences between the opposition and the incumbent. With such a model, one could investigate the relationship between the degree of polarization of domestic political parties and the influence of the opposition's rhetoric on crisis outcomes. We leave this extension for future work.

The third key assumption, that the opposition has multidimensional preferences, reduces to an empirical question. Does the opposition care only about gaining office, or is the national interest also important to its decision-making process? In the motivating case of the Berlin crisis and the 1948 presidential election, the historical record clearly shows that both issues weighed on the minds of the senior members of the Dewey campaign. We find similar considerations when examining the decision-making process of the Labour Party in the 1956 Suez crisis.¹¹ Both cases provide empirical support for making such an assumption.

11. This case is discussed in detail in the next section.

SUEZ CRISIS AND PARLIAMENTARY POLITICS IN GREAT BRITAIN

It is useful at this point to illustrate the logic of our model with some historical details to see how the logic of this argument operates in real-world crises. The domestic politics within the United Kingdom surrounding the 1956 Suez crisis provides a nice example of how the mechanism of opposition signaling influences crisis bargaining and the elections to follow. This case provides a check on the plausibility of the argument of this article and demonstrates that the calculations that are at the heart of our model were on the minds of the players during this prominent international crisis.

The crisis that followed the nationalization of the Suez Canal was the product of a longstanding relationship between Egypt and Great Britain. For three-quarters of a century, Britain had either directly occupied Egypt or dominated it economically and politically, controlling a number of nominally independent regimes. The immediate cause of the crisis, however, was the nationalization of the Suez Canal Company.

The idea of nationalizing the canal company was largely motivated by recent "renegotiations" of oil rights in the region (Heikal 1973, 89). The early 1950s marked a period when a number of oil-producing Arab states asserted their rights over oil concessions granted to Western oil companies before World War II. Gamal Abdel Nasser, the recently emergent nationalist leader of Egypt, took the actions of these oil-producing states as setting a precedent that allowed former colonial states to assert national rights over their natural resources. In Nasser's view, the canal was Egypt's oil. As such, Nasser believed Egypt was entitled to a percentage of the revenues from the traffic on the canal, in the same way that Saudi Arabia had asserted its rights to a share of the profits from the sale of Arabian oil.

Nationalization of the canal, however, presented particular problems for the major European states. Having Nasser control the canal and, therefore, two-thirds of European oil shipments from the Gulf was a threat to the security of the West in general and to that of Great Britain and France in particular (Yergin 1992, 480). In addition, the nationalization process itself was particularly harsh on share holders. In violation of international law, the nationalization was done without reasonable compensation for the previous operators. Moreover, this sort of nationalist economic policy, if it were to stand, set a bad precedent for other former colonies. From the European perspective, the political act of nationalizing the canal threatened their assets throughout the developing world.

In Great Britain, the political response to the nationalization of the canal company was particularly partisan.¹² Although many factors intervened between the seizing of the canal company and the British and French joint occupation of the upper Suez region, the lack of support from the British Labour Party played an important role in the course of events. At the beginning of the crisis, although public opinion in Britain supported some sort of action in response to Nasser taking the canal, there was a significant disagreement about what exactly should be done. Some were for military action,

12. For a nicely written history of the British parliamentary politics that surrounded the Suez crisis, see Epstein (1964).

if necessary, but most preferred United Nations (UN) mediation or some form of agreement that would allow for joint operation of the canal and sharing of revenues. By the end of August, however, much of the domestic political support within Great Britain for the military option had evaporated outside of the Conservative Party.

Hugh Gaitskell, the Labour leader, and others in the Labour Party saw in the Suez crisis an opportunity to oppose military action and score political points against the Conservatives in government. Although the motivations came from many places, such as the strong pacifist element in the Labour Party, it was also obvious to all involved that the crisis presented a chance to bring down the Conservative government (Epstein 1960, 210). Throughout October and November, Labour Party members of Parliament (MPs) were receiving constituent letters condemning the government's planned, and eventual, invasion of the upper canal in volumes uncharacteristically large for a foreign policy issue. Newspapers were also chastising the government for its "blatant disregard of the terms of the UN charter," and a Gallup poll had only 37% of the electorate supporting the use of force. On the public stage, Labour leaders were becoming more and more critical of the government's aggressive stand and Sir Anthony Eden's ability to manage the crisis (Epstein 1960, 171).

This domestic political opportunity came at a cost. The domestic division hardened many foreign governments' positions against Great Britain in the dispute. For Egypt, the Labour opposition had payoffs in many venues. Not only were Labour Party members' speeches from the House of Commons rebroadcast by Cairo Radio, but also in the UN General Assembly, Egyptian representatives repeatedly quoted Gaitskell's statements supporting their own claims against Anglo-French intervention (Epstein 1964; United Nations General Assembly 1965a, 1965b). In particular, demands by Labour constituency groups and Labour MPs that Britain accept any decision the United Nations determined to be just were damning in the face of an international institution that was sympathetic to Egypt's position.

Back in Cairo, Nasser was receiving additional information from the United States. Reports from the Central Intelligence Agency (CIA) stated that Eden's health was deteriorating and that the Conservative government was under increasingly intense fire because of its militaristic position on the Suez issue. It was largely public knowledge, as Dean Acheson alluded in a *Washington Post* interview (September 27, 1956), that Nasser "could obviously no longer regard the use of force as a practical possibility after the British Labour Party and the US government pronounced against it [in the Suez]." These factors together led Nasser to become more entrenched and more relaxed as he foresaw an end to the crisis favoring his position (Heikal 1973, 97-98).

As for the United States, the growing political opposition within Great Britain became a factor in John Foster Dulles's policy making. The domestic opposition that Eden received at home went a long way toward easing Dulles's concerns about the government's reaction to a resolution of the crisis that favored Egypt. In a private meeting with Gaitskell in Washington and in speeches on the crisis, Dulles used the division within the British parliament as a justification for the administration's largely anti-British position. The crisis also gave the United States an opportunity to regain the trust of Egypt by using the friction in the Atlantic alliance to show that the United States was not like its former colonial allies. In the shadow of the rescinding of the

Aswan Dam loan and U.S. involvement in the returning of the shah of Iran to power, the Suez policy was seen as a useful tool to increase the chance that the newly independent Arab states would lean toward the United States and away from the Soviet Union as the cold war became more intense. However, privately U.S. officials realized that such a position would have been much harder to defend if the United States's closest ally was united in its position against Nasser.

By April 1957, Egypt opened the canal and, although committing to maintaining the previous commercial regime, Nasser got almost everything he wanted. Egypt was in total control of the canal. Egyptians collected the tolls, Egyptians captained the canal ships, and Egypt was the sole owner of the most important international waterway in the Middle East. Although it would be simplistic to claim that the somewhat principled and somewhat opportunistic behavior of the Labour Party single-handedly caused Great Britain's failure at Suez, at important junctures in the crisis, the domestic division within the British parliament left foreign governments in position to push the outcome of the crisis further and further from Eden's and the Conservatives' desired result.

Was the opposition to the use force by the Labour Party the only thing to affect Nasser and U.S. policy in the crisis? Certainly not. Did the set of feasible actions on the part of the United States and Egypt change as a result of the dissent? Almost certainly yes. The opportunity to use the foreign policy crisis for domestic political ends had Labour leaders harshly criticizing Eden and the Conservatives in the cabinet just when a national display of unity was most important. Moreover, this criticism revealed information to the outside world about their assessment of Eden and his government.¹³ Labour's anti-interventionist position then became a tool for both Nasser and the United States to use in relations with Great Britain, as well as the resolution of the issues surrounding the canal waterway. The implied loss with respect to British interests abroad, therefore, made the signal about the quality of Eden credible to the electorate. Labour's opposition to the use of force manifest itself in the electorate and was, in part, the cause of a great swing in public opinion. A *Daily Express* poll in mid-September recorded a sharp drop in the public's belief that Eden's government was handling the crisis well. Although in early August, public opinion polls had 43.5% of respondents believing the Conservatives were handling the crisis "well," this figure dropped to 25% in just over 1 month (Kyle 1991, 226).

A question that may arise is the following: how do we know that these signals were about the competence of the leadership and not about differences in policy preferences? In the 1956 Suez case, an argument can be made that there was some divergence in policy preferences between Labour and the Conservatives. However, that divergence was not as great as it may at first appear. Both Labour and Eden knew there was broad support in the electorate for some response, and most in Britain believed the nationalization was illegal. The Labour Party, however, shaped its critique as one of management competence. But on the policy dimension, even Gaitskell maintained

13. Note that the opposition-signaling model does not require that the incumbent lose the election after a credible negative signal, only that the probability that he or she win decreases. Polls at the time showed decreasing support for Eden's government, and there was an eminent risk of the government falling due to the disagreement at home.

that British rights to the canal had been violated and some serious action was necessary. This is apparent from the historical record when, after a private meeting with Dulles, Gaitskell commented,

Mr. Dulles spoke several times to me of the state of public opinion in Britain, which he maintained was not in support of the Government's policies over Suez. In the end, I had to contest this myself. We still believe that American opinion underestimated the firm sentiments of our country at the time, and that this underestimate had a debilitating influence on their policies. (Finer 1964, 177)

CONCLUSION

We can say a number of things about the informational link between the opposition, domestic political interests, and the national interest in a crisis. First, the model shows that domestic political debate about foreign policy can influence both international relations and domestic electoral outcomes. Second, we see the important role that the public nature of politics can play at the intersection of domestic and international politics. A free press and a right to unconstrained political speech play a crucial role in creating the conditions that make opposition rhetoric credible and effective.

Our analysis points to a new avenue for research on signaling in international relations. Whereas previous work has focused on how different costly policy actions may provide leaders with means to influence the course of international interactions, our analysis shows that even in the absence of costly policies, domestic institutional arrangements may make otherwise incredible rhetoric credible. In our case, the opposition's rhetoric can be said to have institutionally induced credibility as a result of pursuing office through open political competition in the shadow of a crisis. There is no reason to believe that other institutions will not have similar effects. We may therefore conclude that a better understanding of international crises may turn on a better understanding of the domestic institutions that shape the incentives of decision makers.

APPENDIX

BABBLING EQUILIBRIUM

Proposition 1: There always exists an uninformative equilibrium to the opposition cheap-talk game.

Proof. There exist a number of different babbling equilibria to the opposition cheap-talk game that are uninformative. In this proof, we characterize one class of uninformative equilibria that exists over the entire parameter space. This proves the proposition.

Let the electorate's decision rule be captured by the choice of a representative voter. For the voter's strategy to be sequentially rational, the voter votes for the incumbent if and only if

$$Eu_v(\text{incumbent}) \geq Eu_v(\text{opposition}),$$

with $u_v^i(t_i, \varepsilon) = -t_i + \varepsilon$ and $u_v^o(t_o) = -t_o$. A voter, therefore, votes for i if and only if

$$\varepsilon = \pi_M^s - 1/2,$$

where π_M^s is the voter's expected value for the incumbent's type, given the opposition message and the incumbent's strategy, $s = \{\text{accept}, \text{reject}\}$. Because $\varepsilon \sim U[-.5, .5]$, the probability the voter votes for i is $1 - \pi_M^s$.¹⁴

Suppose f makes an offer x , given its beliefs. For any offer x , the incumbent's utility for that offer is

$$u_i(\text{accept}) = \alpha x + (1 - \alpha)(1 - \pi^a),$$

$$u_i(\text{reject}) = \alpha(p - t_i) + (1 - \alpha)(1 - \pi^r),$$

and

$$u_i(\text{accept}) \geq u_i(\text{reject}) \text{ if and only if}$$

$$x \geq p - t_i + v(\pi^a - \pi^r) \equiv q^*,$$

where $v = \left(\frac{1}{\alpha} - 1\right)$.

Suppose the incumbent plays this strategy. When he or she accepts an offer, by Bayes's rule,

$$F^a(t_i) = \begin{cases} 0 & \text{if } 0 \leq t_i < q^* \\ \frac{F^0(1) - F^0(t_i)}{F^0 - F^0(q^*)} & \text{if } q^* \leq t_i \leq 1 \end{cases},$$

and the expected value of t_i is

$$\int_{-\infty}^{\infty} t_i f^a(t_i) dt_i = \frac{p - x + v(\pi^a - \pi^r) + 1}{2} \equiv \pi^a$$

by the distributional assumption.

Substituting and solving for π^a and π^r ,

$$\pi^a = p/2 - x/2 + v/4 + 1/2,$$

$$\pi^r = p/2 - x/2 + v/4.$$

Substituting these expectations back into the cut-point, we find that x is accepted if

$$x \geq p - t_i + 1/2 \equiv q^*.$$

14. For the rest of this derivation, I will drop the subscripts M because the message has no effect in a babbling equilibrium.

Note that the probability that the incumbent accepts an offer x is $Pr(t_i \geq p - x + 1/2)$.

The foreign rival's optimal offer then is $x: \arg \max u_f(x)$. Taking the first partial derivative of $u_f(x)$ identifies a unique optimal offer x^* , where

$$\frac{\partial u_f}{\partial x} = 2p + c_w - 2x - 1/2,$$

with the unique solution $x^* = p + c_w/2 - 1/4$. Thus, the foreign rival's strategy is

$$s_f(m) = \begin{cases} 1 & \text{if } p + c_w/2 \geq 5/4 \\ x^* & \text{if } 1/4 < p + c_w/2 < 5/4 \\ 0 & \text{if } p + c_w/2 < 1/4 \end{cases} \quad \forall m \in \{E, \sim E\}$$

Finally, because the rival and the voters ignore the opposition's signal, the opponent's strategy has no affect on the outcome of the game, and there is no positive incentive to deviate from the babbling strategy.

Therefore, opposition babble, i.e., $s_o(t_i)$ —is a random mapping not correlated with the state of the world; all players ignore any opposition signal, and foreign plays

$$s_f(m) = \begin{cases} 1 & \text{if } p + c_w/2 \geq 5/4 \\ x^* & \text{if } 1/4 < p + c_w/2 < 5/4 \\ 0 & \text{if } p + c_w/2 < 1/4 \end{cases} \quad \forall m \in \{E, \sim E\}$$

Incumbent plays a cut-point $q^* = p - t_i + 1/2$, where the incumbent accepts an offer if $x > q^*$ and rejects otherwise; voters vote for the incumbent if and only if $\varepsilon = \pi_M^s - 1/2$; with the following equilibrium beliefs:

1. for the foreign rival, the posterior is the prior $F^0(t_i)$;
2. for the voter, $F^a(t_i)$ characterizes his or her beliefs after seeing the incumbent accept an offer, and $F^r(t_i)$ characterizes their belief after seeing an offer rejected,

is a perfect Bayesian equilibrium (PBE) of the opposition cheap-talk game. |

PROPOSITIONS 2 AND 3

Proposition 2: If the opposition is office seeking and there is no crisis, then no information is communicated in any equilibrium of the electoral game.

Proof. Suppose that the opposition is office seeking and that information is communicated in equilibrium. Because any equilibrium strategy of the opposition has a cut-point structure, we know that the voters' beliefs are either a right or left truncated distribution of $f_0(t_i)$. Therefore,

$$\int_T t_i f_E(t_i) dt_i < \int_T t_i f_0(t_i) dt_i,$$

$$\int_T t_i f_0(t_i) dt_i < \int_T t_i f_{\sim E}(t_i) dt_i,$$

and

$$\int_T t_i f_E(t_i) dt_i < \int_T t_i f_{\sim E}(t_i) dt_i.$$

Given the voters' utility and these induced beliefs, the opposition has a positive incentive to always signal $\sim E$, so the conjectured strategy cannot be part of a PBE. \square

Proposition 3: If the opposition's utility is strictly increasing in x and there is no election, then no information is communicated in equilibrium in the crisis game.

Proof. Suppose that the opposition utility is strictly increasing in x , there is no election, and information is communicated in equilibrium. If the opposition is revealing information, the foreign rival should condition its offer on that information. Note that the rival's optimal offer is larger to the endorsed incumbent for any cut-point signaling strategy for the opposition. Given the strategy for the foreign rival, we know that

$$\int_T t_i f_E(t_i) dt_i < \int_T t_i f_0(t_i) dt_i,$$

$$\int_T t_i f_0(t_i) dt_i < \int_T t_i f_{\sim E}(t_i) dt_i,$$

and

$$\int_T t_i f_E(t_i) dt_i < \int_T t_i f_{\sim E}(t_i) dt_i.$$

Therefore, the opposition has a positive incentive to always signal E , so the conjectured strategies cannot be part of a PBE. \square

PARTIALLY REVEALING EQUILIBRIUM

Proposition 4: If the opposition is office seeking, its utility is increasing in x , the conditions IC1 and IC2 are satisfied, and the signal is received by two audiences, then there exists a semipooling perfect Bayesian equilibrium of the opposition signaling game.

Proof. Suppose that the opposition's possible messages are E and $\sim E$, and it plays a strategy that partitions the type space with respect to some point $c^* \in [0, 1]$. Let

$$s_o(t_i, t_o) = \begin{cases} E & \text{if } t_i \leq c^* \\ \sim E & \text{if } t_i > c^*, \quad \forall t_o \end{cases}.$$

We know from above that $Pr(\text{vote } i) = 1 - \pi_M^s$.

Given an offer x by the foreign rival, the incumbent accepts if and only if

$$\alpha x + (1 - \alpha)(1 - \pi_M^a) \geq \alpha(p - t_i) + (1 - \alpha)(1 - \pi_M^r),$$

which implies that the incumbent accepts if and only if

$$x \geq p - t_i + \nu(\pi_M^o - \pi_M^r) = q^*.$$

Note that $(\pi_M^a - \pi_M^r)$ is always positive.

Given c^* , the foreign rival has contingent optimal offers $x_E^*, x_{\sim E}^*$. To calculate the voter's beliefs requires the examination of four hypothetical cases. First, suppose that the $m = E \rightarrow t_i \leq c^*$ and the incumbent accepts. If the incumbent accepts, then $t_i \geq p - x_E^* + v(\pi_E^a - \pi_E^r)$,

$$F_E^a(t_i) = \begin{cases} \frac{F(c^*) - F(t_i)}{F(c^*)} & \text{if } 0 \leq t_i \leq c^* \\ 0 & \text{if } c^* < t_i \leq 1 \end{cases}$$

The $E[t_i] = \int_{-\infty}^{\infty} t_i f_E^a(t_i) dt_i = \frac{p - x_E^* + v(\pi_E^a - \pi_E^r) + c^*}{2}$.

Solving for π_E^a ,

$$\pi_E^a = p / 2 - x_E^* / 2 + c^* / 2 + (c^* v) / 2.$$

In a similar way, we can define the expected value of t_i , given m and s_i , as $\pi_E^r, \pi_{\sim E}^a$, and $\pi_{\sim E}^r$; substitute the relevant values; and solve such that

$$\pi_E^a = p / 2 - x_E^* / 2 + c^* / 2 + (c^* v) / 2,$$

$$\pi_E^r = p / 2 - x_E^* / 2 + (c^* v) / 4,$$

$$\pi_{\sim E}^a = p / 2 - x_{\sim E}^* + 1 / 2 + v / 4 - (c^* v) / 4,$$

$$\pi_{\sim E}^r = p / 2 - x_{\sim E}^* + c^* / 2 - (c^* v) / 4 + v / 4.$$

With the obvious constraint that the expected type be in the type space, the incumbent's best response to $x_E^*, x_{\sim E}^*, c^*$ is contingent on the signal of the opposition.

Case 1: $m = E$

The incumbent will accept an offer if and only if $x = p - t_i + v(\pi_E^a - \pi_E^r)$, where $\pi_E^a - \pi_E^r = c^* / 2$. Therefore, the incumbent's best response cut-point is a strategy

$$s_i(t_i, x) = \begin{cases} \text{accept} & \text{if } x \geq p - t_i + c^* v / 2 \\ \text{reject} & \text{otherwise} \end{cases}$$

Case 2: $m = \sim E$

The sequential rationality condition implies that after the $\sim E$ signal, the incumbent accepts if and only if $x = p - t_i + v(\pi_{\sim E}^a - \pi_{\sim E}^r)$, and the best response cut-point is

$$s_i(t_i, x) = \begin{cases} \text{accept} & \text{if } x \geq p - t_i + v / 2 - c^* v / 2 \\ \text{reject} & \text{otherwise} \end{cases}$$

Given these strategies, the foreign rival has optimal offers that are contingent on the message of the opposition. Once again, we are looking for $\max_x u(x)$, conditional on the message sent.

Taking the first partial derivative of $u_j(x)$ with respect to x , given the updated beliefs from the signal, and there is an interior solution:¹⁵

$$x_E^* = p + c_w / 2 - c^* v / 4 - c^* / 2,$$

$$x_{\sim E}^* = p + c_w / 2 + v / 4 - 1 / 2 - c^* v / 4.$$

Given all the other players' strategies, to show that information can be revealed in equilibrium, we must find a cut-point, c^* , such that it is incentive compatible for the opposition to send a truthful message. Applying the Crawford and Sobel (1982) arbitrage condition, we know that any incentive compatible partition must make the sender indifferent between sending the high and low signals when the incumbent's type equals the cut-point. That is, the sender is indifferent between sending the high and low signals for $t_i = c^*$. Thus,

$$\beta x_E^* + (1 - \beta)(1 - Pr(\text{vote } i | E, \text{ accept})) = \beta(p - t) + (1 - \beta)(1 - Pr(\text{vote } i | \sim E, \text{ reject})),$$

which implies

$$\beta(x_E^* - p + c^*) = (1 - \beta)(\pi_{\sim E}^r - \pi_E^a).$$

Substituting and solving under the specified distributional assumptions implies

$$c^* = 1 / 2(1 + \alpha - \beta - \beta\alpha - 4\beta c_w \alpha) / (1 + \beta\alpha).$$

From the application of the arbitrage condition, we know that for the values specified above, the opposition's strategy is optimal, given the cut-point, for all types between x_E^* and $x_{\sim E}^*$. To check for deviations, consider the case when $t_i > t(x_{\sim E}^*)$, where $t(x_{\sim E}^*)$ is the type that is indifferent between accepting and rejecting an offer of $x_{\sim E}^*$. This type will accept both offers, so for the cut-point strategy to be incentive compatible when $u(E) \leq u(\sim E)$,

$$x_E^* + \pi_E^a x_{\sim E}^* + \pi_{\sim E}^a,$$

$$x_E^* - x_{\sim E}^* \leq \pi_{\sim E}^a - \pi_E^a,$$

$$IC1 = x_E^* - x_{\sim E}^* - \pi_{\sim E}^a + \pi_E^a < 0.$$

Therefore, sending the E signal when the incumbent accepts all offers is not a profitable deviation.

Now consider the type of incumbent that rejects x_E^* . When such a type exists, the international crisis becomes a war, regardless of the opposition's signal. Given that

15. Because the offer space is a compact convex set and $u_j(x)$ is continuous in x , by the Weierstrass theorem, we know a maximum exists, and because $u_j(x)$ is strictly concave in x , that optimal offer is unique (Sundaram 1999).

this is a fixed payoff, the opposition would rather deviate to sending the $\sim E$ signal and thus will not send a truth-telling signal. But when x_E^* satisfies all types of incumbent, the signal is incentive compatible. This occurs when x_E^* satisfies the $t_i = 0$ type, or $x_E^* = p + c^* / 2$.

$$IC2 \equiv c^* \leq 2/3 \cdot c_w$$

Finally, consider the case in which the opposition deviates to a strategy contingent on t_o . Such a deviation would consist of some $t_o \in T_o$ sending the “wrong” message in some state of the world, where the wrong message is any mapping not consistent with s_o . It is easy to see that this is not a profitable deviation. By the same argument as above, beliefs are defined everywhere by the equilibrium strategy and Bayes’s rule, and if there was no incentive to deviate contingent on the type of the incumbent, then there is no incentive to deviate by t_o .

Therefore, the above strategies, constraints, and beliefs constitute a perfect Bayesian equilibrium of the opposition signaling game, where the opposition’s signal is semipooling and incentive compatible, proving the proposition.

Corollary 1: The equilibrium in proposition 4 is the unique cut-point equilibrium to the opposition signaling game.

Proof. This result follows directly from the proof of proposition 4.

Remark 1: Offers by the foreign rival in both the babbling and the truth-telling equilibrium of the opposition cheap-talk game are greater than the equilibrium offer from an equivalent bargaining game without elections.

Proof. The proof of the claim requires a demonstration that for any interior equilibrium offer (i.e., $x \in [0, 1]$), then $x_{nondemocracy}^* < x_{-E}^*, x_{democrat-B}^*$, and x_E^* . From the equilibria characterized above,

$$x_{nondemocracy}^* = p + c_w / 2 - 1 / 2,$$

$$x_E^* = p + c_w / 2 + c^* v / 4 - c^* / 2,$$

$$x_B^* = p + c_w / 2 - 1 / 4,$$

which clearly satisfy $x_{nondemocracy}^* < x_{democrat-B}^*$ and x_E^* . For $x_E^* = p + c_w / 2 - c^* v / 4 - c^* / 2 < 2x_{-E}^*$, we know from proposition 4 that $x_{-E}^* = p + c_w / 2 + v / 4 - 1 / 2 - c^* v / 4$, which is always greater than $x_{nondemocracy}^*$ in equilibrium. Therefore, $x_{nondemocracy}^* < x_{-E}^*, x_{democrat-B}^*$, and x_E^* .

□

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