Week 8 - Interstate Strategic Interaction

James Morrow, "The Strategic Setting of Choices: Signaling, Commitment, and Negotiation in International Politics," in Lake and Powell, eds. Strategic Choice and International Relations, pp. 77-114.

Noncooperative game theory provides a method of analyzing strategic interaction with incomplete information. Morrow broadly discusses how strategic choices (given preferences) can be studied systematically and focuses on problems of signaling, commitment, and bargaining.

Signaling is a mechanism to indicate to an observer an actor's *type*, by pursuing a discrete action that is typical of a type. Depending on an actor's motivations and strategic setting, an actor may want to *pool*, by taking the same action as different types so that observers cannot separate her type. *Costly signaling* consists of an action that inflict costs other types would not be willing to bear. In international conflict, "the prospect of war is often the source of possible costs that could create separation" (p. 89), but *audience costs* are one way to convince observers of an actor's motivations short of war. On the other hand, *costless signals* can help actors coordinate their actions (e.g., voting on a U.N. resolution). Since complete separation is difficult in the real world, partial separation is probably more common (because signals are often mere bluffs) and all conflicts probably exhibit a selection bias (whereby actors that maintain a conflict path are probably relying on unobservable factors favoring them).

Commitment is a dynamic problem that occurs when actors' incentives change over time even though the actor intends to fulfill the obligation at time it is made. Factors that affect the ability to make a credible commitment include: (a) the degree to which other actors have power (e.g., foreign investors), (b) domestic institutions (i.e., electoral system, transparent procedures, and divided powers), and (c) presence of force (e.g., Frieden's case of colonialism).

Bargaining is the process by which actors decide on the solution to their transaction when they disagree on the solutions' rankings -- even when they prefer a set of agreements (a "zone of agreements"), they may still bargain over the place on the pareto frontier (a distributional issue). One source of power in negotiations is the fact that actors can always exercise an outside option, by walking away from the negotiation or pursuing war. Finding an agreeable price remains difficult because neither actor knows the other's reservation level. Signaling therefore becomes important in bargaining. Delay can be a source of costs that separates actors according to how much they value the object being bargained over. Political systems can affect bargaining by providing reasons to prefer deals now over later (e.g., elections) or structuring bargaining (e.g., take-it-or-leave-it offers such as "fast-track"). [Fast-track was adopted, Morrow notes, because the President is accountable to a national constituency and is thereby more sensitive to overall costs and benefits of trade protection, it reduces log-rolling within Congress, and it makes negotiations between Congress and the President more predictable.] Multilateral bargaining generally becomes more difficult as the number of parties increases. Such problems may be cured by removing recalcitrant groups or permitting minilateral negotiations. Other influences that may affect bargaining are (a) the fact that linkages may create zones of agreement where non existed on a single issue, (b) persuasion that creates a new understanding of the problem, and (c) commitment problems.

The strategic choice approach can change the way we think of issues such as alliances and crisis bargaining.

The conventional approach to alliances, for example, cannot explain why states make costly formal agreements when they are not necessary to intervene. Strategic choice responds to this puzzle by posing that costly alliances serve as commitment devices, thereby deterring threatening powers or increasing the chance of winning through prewar coordination. Moreover, alliances deter because "they signal the intention to intervene or . . . they raise the costs of failing to intervene" (p. 105).

Strategic choice also sheds insight on the received view on crisis bargaining, which relies primarily on a state's capabilities or resolve as explanatory variables. A state's resolve constitutes private information that can be signaled by escalation. Audience costs and reputation costs may build during a crisis, thereby separating types by resolve. In fact, states can demonstrate their resolve by making the option to back down extremely costly. This logic produces a selection bias in observed crisis. "When a state has an observable advantage before the crisis, a crisis only occurs if the other side has unobservable advantages to compensate" (p. 111). Therefore, empirically there should be no direct relationship between the balance of capabilities and war.

In practice, each of the above strategic problems (signaling, commitment, and bargaining) does not occur in isolation. In addition, each problem also points to the significant role of domestic politics, which may be analyzed via two-level games or principal agent models, and warrants wide application in IPE.