Honest Threats: The Interaction of Reputation and Political Institutions in International Crises

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We examine the role of an honest record in the credibility of diplomatic communications: why, on the brink of a crisis, an aggressive state may be deterred by a claim to resist. In contrast to traditional arguments linking credibility to a reputation for resolve, power, or strength, we posit that credibility arises from the expectation of future, continued gains from retaining an honest record. Diplomatic statements are believed only if a country’s or leader’s credibility is unmarred. Leaders keep their word so that they are believed in later crises. Two environments are contrasted: one in which a country’s record for honesty resides within the country as a whole and another in which reputation resides with individual leaders. In this later case, citizens have an incentive to remove leaders caught bluffing. More robust than previous reputation theories, this model also offers comparative statics for when diplomacy will be more effective, namely when leaders are domestically accountable.
INTRODUCTION

“Though they carried on the mysteries of secret diplomacy, there were few real secrets in the diplomatic world, and all diplomatists were honest, according to their moral code. No ambassador said “No” when the true answer should have been “Yes”.... Many diplomatists were ambitious, some vain or stupid, but they had something like a common aim - to preserve the peace of Europe without endangering the interest or security of their country.”- A.J.P. Taylor on 19th century diplomats

What made the diplomats of the late 1800s so carefully select their words? Were they honest by nature? If diplomats were simply selected from a more honorable breed of man, it is difficult to explain the occasions in which they did choose to deceive. Instead, we suggest that diplomats protected their reputation for honest statements in order to retain the benefits of credible diplomatic communication in the future. As the many pages of Taylor’s history note, during this period of shifting European borders and expanding colonial lands, crises were numerous. To resort to war at each crisis would have been highly expensive. Diplomacy functioned as a way to determine whether the issue at hand was critical enough to fight for. The diplomats needed no moral code to follow; the benefits of deterring war through use of diplomatic statements created its own value for a reputation
for honesty.

War is expensive and risky. Both sides would prefer to avoid conflict while gaining the most beneficial outcome. The problem for both threatening and threatened countries during a crisis is that they lack information about each other’s interests. This uncertainty leads to states being unsure as to what actions the other is prepared to undertake. While some threatening countries value an issue so highly that they will attack regardless, others would be deterred if they knew with certainty that the defender would resist. In these latter cases, war is inefficient and avoidable.

A country considering an attack could of course ask its target how highly it values the issue at hand by first issuing a threat, but whether and how a diplomatic response is meaningful is debatable. In conveying information about its position, the target country has an incentive to overemphasize its value for the issue in the hope of deterring the aggressor from attacking. (1) If both types of target countries - countries that would resist and countries that wouldn’t resist if attacked - have an incentive to signal “will resist”, then signaling during a crisis becomes meaningless.

Deterrence literature has focused on “reputational effects” to explain when threats to resist are believed. These arguments rely on perceptions of the under-
lying characteristics of the defending states - whether they are resolved, powerful, or capable of resisting. Formal game theory models utilizing reputation in terms of deterrence theory first arose within the field of economics to explain the behavior of monopolies and their potential rivals (Selten, 1978; Kreps and Wilson, 1982), but found resonance among political scientists in the ability to explain diplomacy and deterrence in the sphere of international conflict (Alt, Calvert, and Humes, 1988; Nalebuff, 1991, Wagner, 1992, O’Neill 1989 for example). These models have focused on reputation as a property that can be invested in and built up; countries make and follow through on threats not for the immediate gains but in order to achieve a reputation for a certain trait, typically labeled aggressiveness, resolve, or toughness. Countries anointed with a strong reputation are expected to encounter fewer threats and are more likely to believed when they say they will resist than those branded as weak or irresolute. Reputation, according to Schelling in his oft quoted Arms and Influence (1966), is “one of the few things worth fighting over.”

These types of reputation arguments have been challenged on several fronts. Jervis (1984) has argued that a reputational paradox prevents reputation from creating credible signals: both weak and strong countries have an incentive to signal resolve. More recently, Mercer (1996) has questioned the assumed universal
meanings of reputation by introducing psychological research demonstrating that people ascribe to behavior either situational or dispositional explanations depending on their relationship with the actor. In the realm of international relations, Mercer contends that reputations are predetermined by whether the acting country is an ally or a rival: in the case of a rival, even “weak” behavior is typically perceived as a strategic move rather than a demonstration of a lack of resolve. A reputation for resolve becomes meaningless since perceptions contort the signals being sent. Thirdly, reputation models have been criticized for requiring an interdependence of crises; the government in each crises is expected to feel the exact influence in all past as well as all future crises, a static influence not found in international relations (Morrow, 1994; Snyder, 1972).

We distinguish ourselves from these earlier models and their critiques by defining reputation not in terms of a country’s or an individual’s behavioral traits but simply the past record of diplomatic honesty. Countries and individuals start with a clean record, and their diplomatic statements are initially believed. Actors mar their record if they renege on diplomatic statements, for example by failing to follow through on threats, and lose their credibility. In contrast to theories of interdependence, it is expected that the intensity of interests will vary across issues, and that countries will consequently vary their degree of commitment. In
terms of reputation, what is observed is a country’s honesty in signaling these varying degrees of commitment rather than the levels of commitment themselves. Thus unlike a reputation for “strength”, a reputation for “honesty” cannot be developed but is instead defended.

This distinction emerges within a debate between Queen Victoria and her Minister of Foreign Affairs, Lord Clarendon, over defining English obligations to support fellow European states during the tumultuous period of the late 1860s. Victoria, fearing England was perceived as weak by both European rivals and allies, demanded greater intervention in European affairs. She claimed that a lack of action on the part of England had encouraged its rivals in Europe to believe that “the aggressive Power may dismiss all fears of England across its path.” (2) In contrast, Clarendon expressed less fear of being perceived as weak than of being caught bluffing: “it would seem more honest and dignified on the part of England not to menace, if she is not sure of being able to strike, and not to promise more than she may be able to perform.” (3)

It is precisely this latter concern for reputation, concern for having been caught lying rather than concern for not having been seen to act aggressively, that we seek to formalize. In doing so we demonstrate why, for Lord Clarendon and so many other leaders and diplomats, it has been important not only to carefully select
which commitments are made but also to follow through once a commitment is made. In our first model (the country-contingent reputation model), the country as a whole is held accountable for false diplomatic statements. Once found to renege on a commitment, its diplomatic statements are no longer credible. In the second (the agent-contingent reputation model), a country’s leader is held accountable for false diplomatic statements. The country carries the leader’s reputation for as long as she remains in power, creating an incentive to remove leaders caught being deceptive in their diplomatic claims.

Both models provide a more robust explanation for the credibility of diplomatic statements than previous reputational arguments; an explanation which neither requires interdependence between crises nor depends on behavioral characteristics of the state such as resolve. Furthermore, the comparison of the two models provides comparative statics on when states will be most credible. We show that diplomatic communications have greater credibility and are effective under a broader range of conditions when leaders are domestically accountable.

The format of the paper is as follows. First, we distinguish our model from earlier models of credibility, in particular those of Fearon (1997) and Sartori (1998, 2002). Second, we analyze a conflict undertaken without communication in order to form a base from which to compare both the country-contingent reputation
(CCR) and agent-contingent reputation (ACR) models. Finally, we discuss expected behavior resulting from the agent specific model.

CREDIBILITY AND SIGNALLING

Throughout the course of history, countries have invested much time and energy into diplomacy, suggesting that signals between countries do have value. In modelling these signals, we follow in the tradition of formal models proposing mechanisms for making signals credible (Powell, 1990; Morrow, 1989; Wagner, 1989) and utilize Fearon’s concept of domestic audience costs (1994) to expand on recent work by Sartori (1998, 2002).

As noted previously, credibility is important as it allows countries to avoid “inefficient” wars or those that would not be undertaken if the aggressor knew for certain that the target would resist. In peacetime diplomacy, countries are generally assumed to share a common interest which allows them to share values or make the concessions necessary to produce a positive and peaceful outcome (Snyder, 1972; Crawford and Sobel, 1982; Farrell and Gibbons, 1989; Austen-Smith, 1992). Variations in the prisoners’ dilemma game have shown the benefits of cooperation even in a state of anarchy (Taylor, 1976; Axelrod 1984; Oye 1988). However, in the midst of a crisis, countries are assumed to have lost such a common interest. Why should the conditions of peacetime or war create a different
incentive structure? In a 1995 paper, James Fearon revived the question of why rational leaders, knowing that due to the costs of war there exists at all times a settlement which all sides would prefer to the risky outcome of war, would not find negotiated settlements. One reason is that in the crisis period preceding conflict, both parties have an incentive to posture or to claim more than their true interest. Both countries would benefit, if they could trust the other’s statement of intent, but in order to do so, the signals themselves must be costly.(4) While various mechanisms have been proposed to make signals costly (mobilization, increased arms spending, limited conflicts, and alliance formation to name a few), we look specifically at two recent arguments: Fearon’s domestic audience costs and Sartori’s national reputation model.

Fearon posits that the domestic audience serves as a lie-detector for leaders making threats. Citing the historic norm that domestic audiences punish or criticize leaders more for backing down after escalating a crisis than for not escalating at all, Fearon (1997) suggests that public sentiment creates costs that leaders would not risk unless their international threats were credible. Audience costs are paid only if the leader backs down after having made a threat to attack or a claim to resist, implying that the domestic audience accepts the initial over-commitment (perhaps due to acceptance that the government holds private information) but
not a retreat to the actual interest of the state. By assuming that the ability of
democratic populaces to punish their leaders is in general greater than that of
autocratic populaces, Fearon proposes that democracies are better able to signal
commitment. (5)

Fearon’s argument, however, lacks a rational underpinning as to why the do-
mestic audience should punish a political leader who attempted to bluff in order
to achieve a better deal for the country but then backed down rather than pay
unwarranted costs of war (Smith 1998a,b; Schultz, 1998). If we accept Fearon’s
argument that it is always beneficial for a state to mislead about its capabilities
and interests during a crisis, then why should domestic audiences with rational
expectations not expect leaders to bluff? Furthermore, why would the public im-
pose domestic audience costs which “trap” a state into action which the populace
in general does not support? We propose that the domestic audience punishes the
leader for destroying the country’s honest record and thus for putting in jeopardy
the future benefits of being able to communicate during a crisis.

The benefit of a reputation for honesty, or integrity, arose early in the discus-
sion of costly signals. Snyder (1972) contended that threats become credible when
they put at stake a nation’s reputation and thus its future bargaining position.
Outside of political science, honesty is a common theme in French, British, and
American manuals of diplomacy in every era (Nicholson, 1939 and 1964; Bailey, 1968; Berridge, 1995; Callières, 1716, Cambon, 1931). In common among these writers is the belief that honesty was not only a moral trait but a necessary one. Calliers notes that “a lie always leaves in its wake a drop of poison” and that to be effective in the business of diplomacy a negotiator must have “a reputation for straight and honest dealing.” Bailey creates an analogy between the diplomatist and the banker: for each, a lie could bring a profitable coup, but success will be a one-time phenomena since they will be blackballed from their respective communities. Cambon claims that “the most persuasive method at the disposal of a government is the word of an honest man.” For Nicholson, the entire realm of diplomacy rests on integrity and thus he observes that “national honour” must be interpreted as “national honesty.” According to Nicholson, as soon as countries begin to repudiate their promises, “anarchy follows.”

Sartori formalizes this role of honesty. In her model, two games are played out. First the challenger threatens, and the defender has an opportunity to communicate whether or not the country will resist. Given a past history of honest statements (all countries start the game as credible), the challenging country will believe the statement of the defender. Sometimes, a statement to resist will effectively deter a challenger; but in other cases (where the challenger highly values
the issue), the challenger will still choose to attack. If the defending country had claimed that it would resist but fails to do so at this point, it is punished for dishonesty by the international community. For a finite future period, a country is branded as dishonest, during which diplomatic statements lack credibility, and the country loses the possible deterrence benefits of credible communication in future crises. The potential benefits in future crises of being able to deter through diplomatic statements creates a value for a reputation of honesty and, under certain conditions, restrains countries from bluffing.

We seek to expand beyond Sartori’s national reputation model for several reasons. First, Sartori is forced to rely on exogenous reinstatement of credibility for nations; Sartori assumes the length of punishment for dishonesty is exogenously determined by the members of the international community. Second by focusing on national reputation, Sartori concludes that states do not require certain domestic conditions to create costly signals. In other words, the unitary actor model of realists need not be broken to explain the value of diplomacy. However, in focusing purely on national reputation, Sartori ignores the additional constraints and, hence, the additional credibility certain domestic institutions may create. Drawing on recent work by McGillivray and Smith (2000), we propose an agent-contingent reputation model (ACR) to resolve the problems with both Sartori’s
and Fearon’s models. (7) Countries and their agents initially begin with a clean record and thus their statements are initially believed. Countries benefit from retaining this clean record by being able to communicate over a series of crises. Though political leaders might attempt to reap benefits from bluffing, if caught, they risk being labelled dishonest and thus risk being prevented from credibly communicating in future crises. If reputation resides with individuals rather than nations as a whole, citizens can remove leaders caught lying in order to restore the benefits of diplomatic communication. This possibility of removal creates audience costs for leaders who make threats but who subsequently back down. The greater the benefits for holding office and the easier it is to remove leaders, the greater the incentive for domestically accountable leaders to carry out the threats they make. Hence in comparison to their more autocratic counterparts, democratic leaders are more credible. This ability to clearly signal intention has been offered as a theoretical explanation for the empirical findings of a democratic peace (Fearon 1994; Schultz 1998; Martin, 1993). (8)

Though drawing upon earlier theories of credible commitments, our model distinguishes itself by

1. a reconceptualization of reputation in the form of integrity, freeing it from the problems inherent resolve-based arguments
2. creating a micro-foundational explanation for domestic audience costs

3. explaining how domestic political institutions shape the credibility of leaders and

4. proposing an endogenous explanation for the reinstitution of communication between governments and the nature of these communications.

CRISIS INTERACTION

We start by introducing a model of conflict between two nations. This serves as a background against which to examine the properties of reputation. We assume a crisis exists between two nations, A and B. In order to keep the model as simple as possible we look at the case where the status quo represents B’s ideal position. A can potentially alter the status quo by challenging B. Should it do so, Country B must decide whether to resist. Figure 1 represents this game. The status quo prevails if A does not attack. The values for this outcome are 0 for Country A and $v_B$ for Country B. Should A attack and B resist, war occurs. Consistent with the extant literature (9), we model conflict as a simple lottery where A wins with probability $p$. Should A win, it alters the status quo to its favored outcome which we normalize to a value of $v_A$ for Country A and 0 for Country B. If B prevails in the war (which occurs with probability $1 - p$), B retains its favored position. The payoffs associated with this policy outcome are 0 and $v_B$ for A.
and $B$ respectively. In addition, both nations $A$ and $B$ pay costs associated with conflict, $k_A$ and $k_B$ respectively. If $B$ fails to resist $A$’s challenge, then $A$ changes the status quo policy to its favored outcome, which is worth $v_A$ to $A$ and 0 to $B$.

Before Country $A$ initiates its attack, it is reasonable to assume it calculates the expected value of attacking. With some probability, the country attacked, $B$, will acquiesce and provide $A$ with its full value of the contested issue, $v_A$, but with the complementary probability, war will break out, providing $A$ with a diminished expected value dependent on the probability of victory and the cost of war, $pv_A - k_A$. When undertaking this calculation, $A$ knows its own value for the issue under dispute and can gauge through observing military capabilities, alliances, and other variables its probability of victory in the case of war. However, without knowing $B$’s value for the issue under dispute, $v_B$, Country $A$ is uncertain whether its opponent will resist or acquiesce. While Country $A$ will value some issues so highly as to always attack regardless of Country $B$’s intentions to resist, for some portion of lesser valued issues, $A$ only attacks because it believes, perhaps erroneously, that the probability of $B$ resisting is low. In these latter cases, war occurs needlessly: if $A$ knew that $B$ would resist, then it would not attack, saving both $A$ and $B$ the cost of war. To formalize these arguments, we now analyze the
decision making calculus.

We start by analyzing B’s decision to resist. If attacked, B’s payoff from surrendering is 0 \((U_B(surrender|v_B) = 0)\). If B resists and war breaks out, B’s expected payoff is:

\[ E[U_B(resist|v_B)] = (1 - p)v_B - k_B. \]

Hence B resists when \((1 - p)v_B - k_B \geq 0\), alternatively expressed as \(v_B \geq \frac{k_B}{1 - p}\).

Since A does not know B’s valuation for sure, it is uncertain exactly whether B will resist or not. However, using its beliefs about \(v_B\), it can estimate the probability that B resists. We assume the distribution of \(v_B\) is \(F_B(x)\), i.e. \(Pr(v_B \leq x) = F_B(x)\). We similarly assume the distribution of A’s valuation, \(v_A\), is \(F_A\). (10)

Given these assumptions, the \textit{ex ante} probability of B resisting, \(\beta\), is \(Pr(v_B \geq v_B)\) which equals \(1 - F_B(v_B)\) where \(v_B = \frac{k_B}{1 - p}\). The special case of the uniform distribution, which we will use for all our examples, is \(\beta = 1 - F_B(v_B) = 1 - (\frac{k_B}{1 - p})\). (11)

With this estimate of the probability that B resists, A can calculate the expected value of attacking. With probability \(\beta\), an attack leads to war for which A’s payoff is \((pv_A - k_A)\), and with probability \(1 - \beta\), B capitulates giving A its desired policy without a fight. Formally,

\[ E[U_A(attack|v_A)] = Pr(B resists)(pv_A - k_A) + (1 - Pr(B resists))v_A = \beta(pv_A - k_A). \]
\( k_A \) + (1 - \( \beta \))v_A = (1 - F_B \left( \frac{k_B}{1-p} \right)) (pv_A - k_A) + F_B \left( \frac{k_B}{1-p} \right)v_A

If \( A \) chooses not to attack, the status quo prevails: \( U_A(\text{no attack}|v_A) = 0 \)

Therefore \( A \) attacks if \( v_A \geq \underline{v}_A = \left( 1 - F_B \left( \frac{k_B}{1-p} \right) \right) \frac{k_A}{p+\left(1-p\right)F_B \left( \frac{k_B}{1-p} \right)} = \frac{\beta k_A}{1-\beta+p\beta} \).

Knowing the distribution of \( A \)'s value for the policy \( v_A \), we can calculate the \textit{ex ante} probability that \( A \) attacks, \( \alpha \), as \( \Pr(v_A \geq \underline{v}_A) = 1 - F_A (\underline{v}_A) = 1 - F_A (\frac{\beta k_A}{1-\beta+p\beta}) \).

[FIGURE 2 ABOUT HERE]

These calculations tell us about the distribution of outcomes for any given crisis. While \( A \) and \( B \)'s actions are \textit{ex ante} optimal, they are \textit{ex post} inefficient in the sense that sometimes \( A \) initiates an attack that leads to a war which \( A \) would prefer not to fight. Figure 2 depicts the strategies given the parameters \( p = .5 \) and \( k_A = k_B = 0.2 \). When \( A \)'s valuation is small \( (v_A < \frac{\beta k_A}{1-\beta+p\beta}) \), \( A \) does not challenge the status quo. When \( A \) values the issue more highly, it attacks. Some of these attacks result in capitulation and some in war. Yet, if \( A \) knew \( B \) would resist, \( A \) would be more reluctant to attack, initiating conflict only when \( v_A \geq \frac{k_A}{p} \).

In this numerical example, Country \( A \) attacks 83% of the time and Country \( B \) resists 60% of the time. Yet, if \( A \) were certain that \( B \) would resist, it would only attack if \( v_A \geq \frac{k_A}{p} \) which occurs only 60% of the time. Therefore if \( B \) could credibly communicate its intentions to resist, it could deter approximately 28% of all possible attacks (\( \frac{83\%-60\%}{83\%} \)). While small in this example, the proportion
of deterrable attacks rapidly increases as the cost of fighting, \( k_A \), increases. For example, if the cost of war were to increase to .3 for both parties, 45% of all attacks could be deterred.

The revelation of \( B \)'s intentions to resist also benefits \( A \). If certain that \( B \) would resist, only \( A \) types above 0.4 (\( v_A > \frac{k_A}{p} \)) attack; yet when uncertain, all types above 0.17 (\( v_A > \frac{3k_A}{1-\beta+\beta p} \)) attack. The types falling between these two cutpoints benefit from knowing \( B \)'s intentions since they avoid initiating conflicts they do not wish to undertake. Hence, it is in both sides interests to use diplomatic communications when possible.

Unfortunately, \( B \) has no incentive to remain honest. If \( A \) believes signals at face value, and therefore types between 0.17 and 0.4 are deterred, then \( B \) always benefits from a declaration of intent to fight, regardless of its true intention. Consider \( B \) types with \( v_B \) below 0.4, those who would not fight in our numerical example. An honest declaration would yield a zero payoff, since \( A \), knowing \( B \) would not resist, would always attack. These low \( B \) types would have no incentive to reveal their weakness and would instead declare a willingness to fight. If \( A \) believed such claims, \( B \) would gain from deterring \( A \) types between 0.17 and 0.4. Thus, non-resolved types would be better off imitating resolved types. Unfortunately, this would destroy the value of the signal: all types would declare
a willingness to fight; and $A$ would no longer be able discriminate between types without attacking. Attempts to deter $A$ through statements of foreign policy would come to naught!

**REPUTATION**

“If in a crisis like this, we run away from these obligations of honour and interest as regards the Belgian Treaty, I doubt whether, whatever material force we might have at the end, it would be of very much value in face of the respect that we should have lost.”- Lord Grey to Parliament, 1914 (12)

What is the value of a reputation? In his speech to Parliament, Lord Grey supports resistance to Germany’s incursion into Belgium not because of the value of an independent Belgium but because of the value of Britain’s reputation. In doing so, he calculates a price for reputation that is above the expected cost of war and above the loss of life of British citizens. A reputation for honesty is valuable because it allows countries to determine each other’s intent and hence avoid unnecessary wars, as discussed above. The willingness to go to war to protect a country’s reputation gives weight to diplomatic statements, rendering them meaningful. As previously discussed, we define reputation to be a past record of honesty in threats to challenge and to resist. We assume the existence of common knowledge about previous crises and the behavior of each player.(13)
Does reputation reside with the country or the leader, and does it matter? We develop parallel concepts of reputation: one in which the reputation resides with the country as a whole and a second in which a country's reputation is embodied by the political leader. Using a common framework of pre-crisis communication, we compare the properties of the two reputation mechanisms. First we look at country-contingent reputation (CCR), in which we assume that the country as a whole carries the burden of a loss of reputation. In this setting, once one leader loses the nation’s reputation for honesty, its is lost until the time other nations choose to forgive it. In this case, the country is functionally equivalent to a unitary actor. In order to make comparisons to the agent-contingent mechanism, we consider the limiting case in which nations never forgive previously observed bluffs. This so-called grim-trigger strategy creates the strongest incentive for states to remain honest since if caught bluffing, a country loses indefinitely the ability to communicate its intentions to others. Anne Sartori (1998, 2002) analyzes the consequences of finite punishments.

In the second case, we assume that leaders and the public are separate actors and that the reputation for honesty within crisis situations resides with the leader and not the people she represents. In this second scenario, which we call agent-contingent reputation (ACR), integrity is restored with the removal of a
leader. This institutional structure has two effects. First, the policy statements of domestically accountable leaders are more credible than their autocratic counterparts. Realizing that their citizens have an incentive to remove them from office if they are caught bluffing, democratic leaders do not make threats they are not prepared to carry out. Second, the agent-contingent reputation provides a mechanism through which informative communication can be restored after a leader has been caught bluffing.

Pre-crisis communication and domestic politics

To incorporate the role of reputation, we now extend the crisis game to allow for the possibility of pre-crisis communication and present two variations in line with the two models of domestic politics described above: a unitary actor model (CCR) and a principal-agent model (ACR). The crisis interaction forms the basis of the stage game for an infinitely repeated game. In each period, nations A and B find themselves in dispute. The structure of the interaction is identical in every period. Yet since the issues under dispute are often different between crises, we assume that each nation’s evaluation, \( v_A \) and \( v_B \), of the issue is redrawn from the distributions \( F_A \) and \( F_B \) at the start of each period. Hence unlike extant reputation models, nations have no underlying trait. Each country’s evaluation of the issues at stake is independent of their evaluation in previous crises.
We introduce the possibility of pre-crisis communication by allowing \( B \) to announce whether or not it intends to resist should \( A \) attack. In terms of modeling, \( B \) announces either the message resist \((R)\) or the message surrender \((S)\). Obviously in reality there is a huge variety of messages that \( B \) could send, but these all come down to a declaration as to whether \( B \) will resist or not. Having observed this message, Country \( A \) decides whether or not to attack; and if an attack occurs then \( B \) decides whether or not to resist.

We introduce domestic politics by dropping the assumption that Country \( B \) is a unitary actor. Instead Country \( B \) has a leader, who we refer to as leader \( B \), and an electorate. Very much as Fearon informally laid out in 1994, following the conclusion of the crisis the electorate in Country \( B \) can depose the incumbent leader and replace her with another leader. Political regimes leaders differ in accountability. In many systems, such as democracies, institutions and laws provide for a relatively inexpensive way to replace leaders. In others, overturning the incumbent is much harder, often requiring civil unrest or even civil war. To model these differences we assume the electorate, who we treat throughout as a unitary actor, pays a cost \( \varepsilon \) to replace the incumbent. With respect to crises, all leaders, and their potential replacements, have the same preferences as the citizenry. Specifically, all actors in Country \( B \) receive a payoff of \( v_B \) if Country
$B$ prevails in the crisis. However, in addition to the value of outcomes, leader $B$ receives a payoff of $\Psi$ associated with the benefits of holding office.

The extended crisis interaction which makes up the stage game is as follows:

1) A’s evaluation of the issue under dispute, $v_A > 0$, is randomly drawn from the distribution $F_A(v)$. A learns this value, but the members of Country $B$ do not, knowing only the distribution $F_A(v)$ from which it was drawn. The members of Country $B$, the leader and electorate, simultaneously learn their valuation of the issue under dispute, $v_B > 0$. Again Country $A$ knows only the distribution $F_B(v)$ from which $v_B$ is drawn.

2) Leader $B$ announces either the message $R$ (an intention to resist) or $S$ (no intention to resist).

3) Having observed the message $R$ or $S$, Country $A$ decides whether to attack.(16)

4) If $A$ attacks, then leader $B$ decides whether or not to resist.

5) In the Agent-Contingent Reputation (ACR) model, the citizens observe the outcome of the crisis and decide whether to retain their incumbent leader, or replace her at a cost of $\varepsilon$.

The past history of the game plays an important role in the equilibria we characterize. Formally, we let the history of past play be $h^t$. Yet for the purposes
of our analysis, we are only interested in one aspect of past play: the honesty of $B$. Given this, we reduce the history of previous play into two categories: $Honest^t$ or $Cheat^t$. Thus, at time $t$ if $B$ has always followed through on all threats to resist, we say $B$’s reputation is honest, or $h^t \in Honest^t$. Alternatively, if in a past crisis $B$ ever claimed it would resist (message $R$) but failed to do so when actually attacked, then we say that $B$ has lost its reputation for honesty or that it has cheated in the past ($h^t \in Cheat^t$). The key distinction between the reputation mechanisms we propose is whether by $B$’s reputation we mean any current or previous leader of Country $B$ or the specific incumbent leader currently in office.

Country-contingent reputation

“In the days of absolute monarchy the personal honour of the King was involved in the maintenance of the contracts or treaties which had been signed and ratified in his name. Monarchs were not invariably very sensitive to this obligation, but they were at least aware (and Louis XIV was constantly aware) that their own reputation for integrity was directly and personally at stake” (Nicholson, 1964). We will argue that this concern for a reputation for integrity was similarly invoked in diplomatic communications; a monarch’s proclamation could serve as a powerful statement of commitment. The problem with kings and other entrenched rulers, however, is that once this reputation for integrity is lost, the
country as a whole suffers the consequences for as long as the ruler remains in power. (17)

In the country-contingent reputation strategy (CCR), by an honest reputation we mean that Country B, or its executive agent, has never announced message R and then failed to resist. Under CCR, providing B has an honest reputation, A believes B whenever its leader claims she is prepared to fight over an issue. In equilibrium, when the value of the issue is above some level, \( v^*_B \), which we will define in a moment, leader B declares an intention to resist (message R) and does so if A attacks. B types valuing the issue below this level send message S, effectively conceding the issue diplomatically. These types do not resist when A attacks. Since B always follows through on its declaration to resist, A believes B’s messages and hence conditions its decision to attack upon B’s diplomatic statement. Using parallel notation to that used in the uninformative scenario, we let \( \alpha(R) \) represent the probability A attacks given that B states it will resist. Under the CCR, in equilibrium, threats to resist are credible so A only attacks when it prefers the war outcome to the status quo, i.e. \( pv_A - k_A \geq 0 \). Hence, \( \alpha(R) = \Pr(v_A \geq \frac{k_A}{p}) \). Alternatively, when B states it is unwilling to resist (message S), A always attacks, \( \alpha(S) = 1 \). Once B has lost its reputation for honesty, A ignores all of B’s policy declarations, and play is equivalent to the earlier described
uninformative case. Under the CCR, the electorate’s decision to remove the leader is irrelevant. Given the strategy of the other players, any voting strategy is optimal. Therefore, we ignore this aspect of the game and assume electorates always retain their leaders.

Given this behavior, we can calculate the value for playing the infinitely repeated game starting with an honest reputation, $h^t \in Honest^t$. We think of a country, here Country $B$, looking into the future, speculating about the type of disputes it is likely to encounter, and thus considering the payoffs from future crises. The expected rewards of playing, often referred to as the continuation value, are calculated as follows. For all future crises, we assume the country, $B$, knows only the distribution of values but from these can calculate expected payoffs. With probability $F_B(v_B^\dagger) –$ the probability that in the future crisis $v_B < v_B^\dagger$ – $B$ will concede defeat diplomatically, admitting that it does not value the issue sufficiently to resist. Knowing $B$ will not resist, $A$ will always opportunistically advance its claims. Although under this contingency $B$’s payoff in the current period is zero, it preserves its reputation for honesty. With probability $1 – F_B(v_B^\dagger)$, $B$ will value the issue sufficiently to declare a willingness to resist if challenged. For these types, their payoff in the current period is $\alpha(R)((1 - p)v_B - k_B) + (1 - \alpha(R))v_B$, where the first term corresponds to the probability of $A$ attacking multiplied by
the expected payoff of conflict, and the second term is the value of the status quo, $v_B$, multiplied by the probability $A$ does not attack. Given that $B$ only declares an intention to resist when it is willing to do so, $A$ only attacks when it prefers war to the status quo ($\alpha(R) = Pr(v_A \geq \frac{k_A}{p})$).

We now have the components to calculate the average value of playing this game starting with an honest reputation. At the end of the current period, providing $B$’s reputation remains intact, the game looks structurally identical. Hence, the value for playing today is the immediate payoffs in this period plus the discounted value of playing the games in the future. $\delta$ represents the discount factor, i.e. the extent to which nations value future payoffs relative to payoffs today.

If $B$ follows the CCR described above, it maintains its reputation, and hence, the continuation value is given by a combination of the probability and the expected values of the three outcomes - surrender, war, and status quo:

$$W_h = F_B(v_B^\dagger)(0 + \delta W_h) + (1 - F_B(v_B^\dagger))\alpha(R)((1 - p)E[v_B|v_B \geq v_B^\dagger] - k_B + \delta W_h) + (1 - \alpha(R))\left(E[v_B|v_B \geq v_B^\dagger] + \delta W_h\right)$$

Given this recursive definition, for the special case of the uniform distribution

$$W_h = \frac{1}{1-\delta}(1 - v_B^\dagger)(\frac{1+v_B^\dagger}{2} + \alpha(R)(-\frac{1+v_B^\dagger}{2} - k_B)),$$

where $\alpha(R) = (1 - \frac{k_A}{p})$.

Alternatively, if $B$ plays the infinitely repeated game without a reputation for honesty, $h^t \in Cheat^t$, then its foreign policy statements are ignored. Hence, in
each period $B$ expects to receive the \textit{ex ante} average value of uninformative play. Since without a reputation for honesty, behavior is identical to the initially analyzed uninformative case, the continuation value is simply the discounted expected value of all future crises:

$$W_c = \sum_{\tau=0}^{\infty} \delta^\tau E[U_B(crisis)] = \frac{E[U_B(crisis)]}{1-\delta}$$

which for the special case of the uniform distribution is:

$$W_c = \frac{1}{1-\delta}((1-\alpha)\frac{1}{2} + \alpha\beta((1-p)\frac{1+V_B}{2} - k_B)),$$

where $V_B = \frac{k_B}{1-p}$, $\beta = 1 - \frac{k_B}{1-p}$,

$$\alpha = 1 - \frac{\beta k_A}{1-\beta + p\beta}.$$  

Knowing the values for playing the game with an honest and a dishonest reputation, we now calculate the incentives to threaten to resist. Above we stated that only types whose valuation of the issue is greater than $v_B^i = \alpha(R)\frac{k_B}{1-\alpha(R)p}$ send message $R$. We now show the origins of this value. If $B$ declares itself willing to resist (and does so if attacked) then its expected payoff is $\alpha(R)((1-p)v_B - k_B) + (1-\alpha(R))v_B + \delta W_h$, where $\alpha(R)((1-p)v_B - k_B)$ corresponds to the value of war multiplied by the probability that $A$ attacks, $(1-\alpha(R))v_B$ refers to the status quo payoff multiplied by the probability of deterring $A$, and $\delta W_h$ is $B$’s expected payoff from playing in the future given it maintains its honest reputation. If instead of threatening to resist, $B$ sends message $S$ and surrenders when attacked, its payoff is $0 + \delta W_h$. Type $v_B^i = \alpha(R)\frac{k_B}{1-p\alpha(R)}$ is indifferent between sending these messages;
types above $v^*_B$ prefer to send $R$ and resist, while those that value the issue less admit diplomatic defeat, sending message $S$.

We now assess the credibility of $B$’s messages. As previously shown, types that value the issue greater than $v^*_B = \alpha(R) \frac{k_B}{1-p\alpha(R)}$ declare a willingness to resist. Yet, myopically, $B$ only wants to resist if $v_B \geq \frac{k_B}{1-p}$. Thus, some types that send threats do not really want to carry them out. However, once a threat has been made, reputation is on the line and its value must be entered into the equation. Providing that the benefits of maintaining an honest reputation offset the cost of fighting an undesirable conflict, $B$ can credibly commit to resist, and the CCR strategy is equilibrium behavior.

If a previously honest $B$ is attacked following a declaration of intent to resist (message $R$), then its payoff for resisting is $(1-p)v_B - k_B + \delta W_h$, where $W_h$ is the continuation value for playing the infinitely repeated game with an honest reputation. Alternatively, if this same $B$ chooses surrenders, then its payoff is $0 + \delta W_c$, where $W_c$ is the continuation value from playing the game with a reputation for cheating. The difference between these two payoffs depends not only upon payoffs for the current crisis but also upon the (discounted) difference between playing the infinitely repeated game with an honest and dishonest reputation, $\delta(W_h - W_c)$. Hence, types valuing the current issue more that $\bar{v}_B = \frac{k_B}{1-p} - \frac{\delta(W_h - W_c)}{1-p}$
carry out their threats to resist, in part, to maintain an honest reputation.

The country-contingent reputation mechanism constitutes a perfect Bayesian equilibrium in stationary strategies providing \( v^\dagger_B \geq \hat{v}_B \). This condition ensures that all types that threaten to resist (those above \( v^\dagger_B \)) actually carry out their threat (those types above \( \hat{v}_B \)). If this condition does not hold, then \( B \) can not credibility commit to follow through on its threats, and hence, the credibility of messages degrades. To ensure \( v^\dagger_B \geq \hat{v}_B \), nations need to be sufficiently patient. For the special case of the uniform distribution this implies \( \delta \geq k_A \frac{k_B}{p(1-p+k_A)(W-A-W_A)} \), which for our running numerical example \((k_A = 0.2, k_B = 0.2, p = \frac{1}{2})\) reduces to \( \delta \geq 0.58824 \). We postpone discussion of the substantive meaning of this expression until we derive the corresponding condition for agent-contingent reputation.

In the appendix we provide a formal statement of the country-contingent reputation strategy. As demanded by the editor, this appendix is located at www.jcr (site to be arranged), rather than in print. Here we focused only on the key substantive features. Just as these features explain why Lord Grey supported a war he didn’t want (i.e. to protect Britain’s reputation), they also help explain when diplomacy will not be effective and in doing so may shed light on old historical arguments.

The extent to which the Russia’s capitulation over the annexation of Bosnia
in 1909 led to World War I has been broadly debated (see Mercer, 1996 also Huth, 1988; Snyder and Diesing, 1977; Geiss, 1976; Joll, 1984). While many scholars have argued that Russia’s demonstration of irresoluteness or weakness in 1909 led Germany and Austria to five years later ignore Russian threats to resist a similar incursion into Serbian territory, Mercer has criticized this reasoning, arguing in part that the Germans did not question Russians’ general resolve. As an alternative explanation to why Germany ignored Russian threats to resist, Mercer proposed that it might be that the Germans thought the Russians lacked the capacity to fight. However, this uncertainty brings into question why the Russians’ diplomatic statements were no longer credible in 1914.

As suggested above, part of the answer may lie in Russia’s loss of integrity. In 1909, despite depicting itself as the protector of the Serbs, Russia was in no position to prevent Austria’s annexation of Bosnia. Russia’s foreign minister Izvolsky clearly wished to avoid conflict: “to strain our relations with Austria (and hence with Germany too) and to risk a war on account of Bosnia and the Herzegovina would be madness.” Yet, seeking to extract some advantage, Izvolsky secretly negotiated a pledge from the Austrians in which Russia would initially resist but later accept the annexation in return for Austrian support of Russian control of the Bosphorus Straits. The plan backfired, however, due in part
to Izvolsky misreading of internal politics. The Czar disowned the agreement, leaving Russia with the announced policy to resist. Six months later, Russia faced a Germany ultimatum: Russia could agree to Austrian proposals or risk war. Russia backed down.

What did Russia lose in this confrontation? As Izvolsky and his military leaders knew, war had never been an option. The secret agreement which included the public announcement of resistance had offered a small chance at extracting some gain from the crisis; Russia had publicly backed their allies, the Serbs; and according to Mercer their general resolve remained unsullied. However, by threatening to resist and then backing down Russia lost far more than a payoff from the Austrians. The situation in 1909 led others to ignore later Russian diplomatic statements. The German undersecretary of state for foreign affairs, Alfred Zimmermann commented that “[b]luffing constitutes one of the favorite weapons of Russian policy, and while the Russian likes to threaten with the sword, yet he does not willingly draw it for the sake of others at the critical moment.”(20) Thus Russia’s bluff in 1909 cost Russia dearly; it diminished the likelihood that Russia’s claims to resist would deter Germany aggression in 1914 and forced Russia to enter what would become a lengthy and expensive war in order to demonstrate its intent.

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Agent-contingent reputation

The agent-contingent reputation mechanism utilizes a similar trigger mechanism to the country-contingent reputation mechanism except that the reputation resides with an individual leader or agent rather than with the country as whole. New leaders start with a clean record. Thus, *de facto*, the national reputation can be restored by replacing any leader with a tarnished reputation. As shown above, a national reputation is valuable because it enables informative communication and thus the possible avoidance of unnecessary wars. A country carries the reputation of its leader, so citizens have an incentive to replace leaders who fail to follow through on their threats, creating a domestic audience cost. (21)

The ACR mechanism works in much the same manner as that of the CCR. Without an honest reputation, play under the ACR is equivalent to that of the non-communicative single shot game. However, given an honest reputation, \( h^t \in \text{honest}^t \), \( B \) sends message \( R \) if and only if \( v_B \geq v_B^t = \alpha(R) \frac{k_B}{1-\alpha(R)} \), that is when the issue under dispute is sufficiently valuable. \( A \) believes threats to resist and so only attacks when it prefers war to the status quo: \( v_A \geq \frac{k_A}{p} \), which implies \( \alpha(R) = 1 - F_A(\frac{k_A}{p}) \). If \( B \) threatens to resist (message \( R \)) but is still subsequently attacked, then the leader chooses to resist providing \( v_B \geq \hat{v}_B = \frac{k_B}{1-p} - \frac{\delta \Psi}{(1-\delta)(1-p)} \). Providing \( \hat{v}_B \geq v_B^t \) all messages sent are credible. Where the ACR mechanism
differs from the CCR is in the final stage: the electorate can select to remove any leader who has damaged the country’s history of honest threats.

As before, an honest reputation is valuable because it allows $B$ to deter aggression in crises. As before, having declared an intent to resist (message $R$) leader $B$ loses her reputation for honesty unless she backs up her threat when attacked. However, the cost of losing one’s reputation differs from the CCR. Under the CCR, a loss of reputation meant Country $B$ lost the ability to communicate in future crises. Yet, since new leaders are absolved of their predecessor’s loss of integrity, the electorate can restore the country’s reputation by replacing the incumbent with a new leader. In many cases, the electorate will want to punish a leader caught lying rather than incur the cost of not being able to communicate in the international system. The threat of such a punishment also should limit the incentive for leaders, as the electorates’ agents, to be deceitful in order to reap short-term career benefits. As has been previously noted, a lie in the diplomatic sphere can be seen to have the same consequence as a lie in the business world (Bailey, 1968). While the initial temptation of bluff might be high, a banker caught lying loses the trust of the community and is thus fired. For an incumbent caught lying, the cost is not losing the ability to communicate in future crises but is rather the loss of her job and associated benefits, $\Psi$. 

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The credibility of the mechanism relies on two features. First, leaders must care sufficiently about their jobs. Second, the benefits of restoring communication in future crises must offsets the cost of ousting an incumbent with tarnished integrity. More formally, for the ACR strategy to be a perfect Bayesian equilibrium we require that \( \hat{v}_B \geq v^*_B \), a condition that implies \( \delta \geq k_B \frac{1-\alpha(R)}{k_B (1-\alpha(R)) + \Psi(1-\rho\alpha(R))} \), and 
\[
\varepsilon \leq \delta (U_{e_B}(\text{crisis} | h^t \in \text{honest}^t) - U_{e_B}(\text{crisis} | h^t \in \text{cheat}^t)),
\]
where \( U_{e_B}(\text{crisis} | h^t \in \text{honest}^t) = (1-\delta)W_h \) is the expected electorate’s value of playing a single crisis when their leader is honest and \( U_{e_B}(\text{crisis} | h^t \in \text{cheat}^t) = (1-\delta)W_c \) is the corresponding payoff associated with a dishonest leader, in order.

Under ACR, the electorate remove leaders caught lying in order to restore the benefits of communication during crises. The threat of this audience cost makes leaders who value office holding honor their commitments. The force of this mechanism can be seen in Clinton’s 1994 follow through on his threat to use force to overthrow Haiti’s military regime. Having committed to support democratic reform, Clinton found little active support among the American populace. However, Clinton followed through with the policy, risking the lives of 20,000 troops and incurring a cost of an estimated $1.5 billion, rather than step down from his threat. Our analysis suggests that despite these high costs of invasion, Clinton’s personal value for maintaining foreign policy integrity, and its
consequent risk to his reelection, offset these costs. If Clinton had been in his second presidential term, the invasion may have been less likely, given the lowered accountability of an non-renewable President.

[FIGURE 3 ABOUT HERE]

Credibility in the ACR depends upon the value of office holding and the discount factor. If office holding has no value, $\Psi = 0$, the decision to resist collapses to the myopic case ($B$ resisting only when $v_B \geq \frac{k_B}{(1-p)}$). However, as the value of office holding rises, more types can credibly commit to resist. Once $v_B^* \geq \frac{k_B}{(1-p)} - \frac{\delta \Psi}{(1-\delta)(1-p)}$ then all types who send message $R$ subsequently resist. As the value of office holding increases, even relatively impatient leaders can credibly commit to action. In the Country-Contingent Reputation model, for our running numerical example ($k_A = 0.2$, $k_B = 0.2$, $p = \frac{1}{2}$), the minimum discount factor sufficient to ensure fully credible foreign policy signals was $\delta \geq 0.58824$. As demonstrated in Figure 3, the ACR supports credible policy signals at this value as long as office holding is in excess of 0.08. As the value of office holding rises further, credibility can be sustained even with much smaller discount factors, allowing credible communications under a much greater range of conditions that the CCR.

COMPARISON OF THE MECHANISMS
Both the CCR and the ACR model suggest that we should expect to see greater
efficacy in diplomacy than that predicted by traditional realist models. When
countries sufficiently value the future benefits of informative communication in
later crises, then diplomatic communication is credible. The expected behavior of
countries within the CCR and ACR models is also radically different from that
of previous reputation models. Reputation models based on countries creating
a facade of “resolve” or “strength” suggest that due to the interdependence of
commitments, countries must make and carry through commitments at low levels
in order to avoid sending a signal of “weakness” or “irresolve.” In contrast, within
both the CCR and ACR models, countries with a reputation for honesty will avoid
committing themselves when they place little value on the issue under dispute.
Following Lord Clarendon, countries should be seen avoiding making such com-
mitments in fear of being forced into an expensive unwanted war or of losing the
ability to communicate interests in the future. In this light, Defense Secretary
William Cohen announced the U.S.’s decision not to lead a humanitarian effort in
East Timor: “We have to be selective where we commit our forces and, under the
circumstances, this is not an area that we are prepared to commit forces....As I
have indicated before, the United States cannot be – and should not be – viewed
as the policeman of the world.” (24) Queen Victoria and other reputation theorists
would suggest Cohen is signaling weakness, while we suggest that he is retaining
America’s ability to credibly commit in future incidents.

The ACR combines features of both the traditional Realist reputation argu-
ments and the role of domestic institutions in credible commitments. By doing
so, the model integrates these two approaches, resolves the paradox’s in Fearon’s
domestic audience cost model as to why the domestic audience would \textit{ex post} pun-
ish a leader caught bluffing, and derives a series of testable implications. It is to
the testable implications that we now turn.

1. \textit{Providing leaders care about office holding, the foreign policy statements of}
\textit{politically accountable leaders are credible under a wider range of conditions than}
\textit{the declarations of their autocratic counterparts.}

CCR functions adequately for small crises, but unfortunately falls apart if
crises are larger in magnitude. To demonstrate this comparative instability, we
reconsider the interpretations of the discount factor. Above we characterized the
minimum discount factor, $\delta$, sufficient to support credible signaling under each
mechanism. We showed that if leaders value office holding then the credibility
of messages can be maintained for a wider range of conditions (i.e. a smaller
discount factor) under the ACR than the CCR mechanism. The discount factor
is a convenient way of assessing the relative importance of current events versus
future crises. Recall maintaining credibility requires the discounted value of an honest reputation in future crises to outweigh the short term incentive to bluff:

\[ v_B^*(1 - p) - k_B \leq \delta(W_c - W_h), \]

where \( v_B^* = \alpha(R)\frac{k_B}{1 - \rho a(R)} \). One way to consider this equation is in terms of patience, \( \delta \). Yet a more meaningful application lies in comparing the magnitude of crises. Suppose the magnitude (salience) of the current crisis is particularly large relative to most crises nations encounter (by large we mean that some multiplier is placed in front of both the payoff \( v_B \) and the cost of fighting \( k_B \) associated with the current crisis). While within the current crisis this leaves incentives unchanged, it makes receiving a favorable outcome in the current crisis extremely desirable relative to success in future crises.

Both the CCR and the ACR mechanisms rely on the relative importance of today versus tomorrow to maintain credibility. As seen in the equation above, this ratio of future to current crises interacts with the discount factor. When the minimum discount factor required to maintain credibility is low, then credible communications can be supported even when the ratio of the importance of the current crisis relative to future crises is high. Since our model shows that ACR supports credibility at much smaller discount factors, the ACR mechanism allows credible communication to continue in larger one-time crises than the CCR mechanism.
One might speculate that the stakes of a possible nuclear confrontation make it impossible for leaders to credibly commit to a policy given the magnitude of such a crisis is likely to dwarf subsequent disputes. However, our comparative statics suggest that if any leader is able to credibly commit, it would be the democrat not the autocrat. (25)

2. "Domestically accountable leaders are more likely to carry out any threats they make, and hence are more careful to avoid making threats they are not prepared to carry out.

All leaders weigh the costs of war against the costs of losing an honest reputation. Democratic leaders face the additional personal cost of losing the benefits of office holding. We assume that these benefits are relatively large in magnitude. As such, the risk of being removed from office means democratic leaders are prepared to follow through on threats when the potential loss of reputation by itself would be insufficient to ensure credibility.

In 1994 President Clinton pledged U.S. involvement to restore democratic governance in Haiti, only to find general apathy among the public. However once committed, the personal cost for Clinton of backing away from this commitment was large enough to cause him to carry through with his pledge. This illustrates an important difference from Fearon’s original conception of audience costs (1994). For
Fearon, Clinton carries out his pledge purely for the selfish reason of maintaining office, raising the question of whether citizens would chose to threaten punishment given this outcome. In contrast, in the mechanism we propose, Clinton has the dual motives of staying in office and of preserving national integrity, and thus the citizens benefit from their following through on the threat to punish. (26)

Our theory suggests that accountable leaders who renege on commitments are punished domestically. Yet, we rarely observe this phenomena in practice. This is consistent with the expectations of equilibrium behavior (Schultz, 1999a). If elected leaders foresee being punished, they are unlikely to make the commitment in the first place. Of course in reality, nations do back down. Some of these retreats are better conceptualized as arising from changing conditions rather than predetermined bluffs: commitments to resist can be inherited (such as in the Vietnam war), a country’s preferences can alter (such as in US intervention in Somalia), or costs of war appear to escalate. In other cases, fluctuations in political accountability even within democratic systems make retreat more likely. In the U.S., a second term president might be concerned with a loss of power, prestige, or party reputation but not the specific loss of office holding benefits. Indeed as Smith (1996, 1998a,b) shows the ex ante probability of reelection effects the extent to which leader can credibility commit. If a leader is perceived has having
little or no prospects of winning the next election, then she has little personally at stake from backing down. This undermines the credibility of her statements.\textsuperscript{(27)}

While autocratic leaders caught bluffing risk losing the benefits of communicating in future crises, their office holding benefits are less at stake. For example, mainland China has made numerous threats to forcibly reclaim Taiwan in the event of Taiwan proclaiming its independence. However, we do not expect Taiwan’s recent denial of the “One China” policy to lead to government action purely due to audience costs.\textsuperscript{(28)} While China’s leaders have the advantage of being able to make threats, the lack of accountability serves to remove meaning from their verbal threats. Though China has made numerous threats to resist Western intervention in South East Asia including Korea, Vietnam, and Taiwan, the threats become news only when mobilization occurs.

A further implication that follows from the enhanced clarity of the democratic leaders’ diplomatic statements is that countries may benefit from targeting countries which use agent-contingent rather than country-contingent reputations. Alternatively, states may seek to create conditions which support a transition to an agent-specific reputation mechanism by the target country. For example, as recommended by Smith (2000), the country issuing the demand may chose leaderspecific policies such as the personalization of the crisis that provide incentives for
3. The arena in which diplomatic communications takes place depends upon domestic accountability. Domestically accountable leaders use the public forum of press conferences, international summits, and direct public addresses to signal commitment to a foreign policy. In contrast, public communiques by autocrats are unnecessary.

During the 20th century, the nature of diplomatic communiques has radically altered. Diplomatic histories of the 18th and 19th century depict the forging of agreements taking place in smoke filled rooms between diplomatic elites and career politicians. Yet increasingly in the 20th century, foreign policy declarations are broadcast nationally or even universally. This is particularly true for democratic countries. The different requirements of the CCR and the ACR mechanisms provide an explanation for this transition. For the country-contingent reputation, communication need only reside within the diplomatic and political elites. The ACR provides greater levels of credibility, but it does so through accountability. For policy pledges to bind citizens must know what commitments their leaders have undertaken. Thus diplomatic statements must be more widely communicated. In contrast, when the credibility of messages is not supported by domestic accountability, the wider distribution of information is unnecessary and as a con-
sequence likely to be rare. This suggests that in closed negotiations, such as are often used for economic trade agreements, regime type is less important in signalling credibility but also that threats unless expressed publicly are also less credible.

4. **In general, the domestic accountability of democratic leaders means that they can more reliably signal their intentions, resulting in democracies being attacked less frequently, participating in fewer unnecessary wars, and benefiting from shorter negotiated settlements.**

The general theme of this paper is that for democratic leaders, the risk of losing office enables them to more credibly commit to a course of action. Because their domestic political survival rests upon living up to their commitments, democrats are more likely to follow through with stated foreign policy goals than are autocratic leaders. This enhanced ability to commit enables democrats to better communicate intentions and consequently to deter adversaries. Scholars have proposed that these properties account for the regularities of the democratic peace. For example Brecher and Wilkenfeld (1997 see also Dixon, 1994; Mousseau 1998; Partell and Palmer, 1999; Raymond 1994; Schultz, 199b) claims the enhanced ability of democracies to reveal their intentions encourages peaceful dispute mechanisms between democracies. Fearon (1994) and Eyerman and Hart
(1996) argue that this leads to fewer escalatory stages within disputes.

CONCLUSIONS

While serving as a diplomat for England in the early 1800’s, Lord Malmesbury wrote to Lord Camden (1813), “[it] is scarcely necessary to say that no occasion, no provocation, no anxiety to rebut an unjust accusation, no-ideal - however tempting - of promoting the object you have in view - can need, much less justify, a falsehood. Success obtained by one is a precarious and baseless success. Detection would ruin, not only your own reputation for ever, but deeply wound the honour of your Court.” In this paper we have distinguished between agents in a way that was not yet available during Lord Malmesbury’s time when agents could be replaced but the Court still stood. Honesty, once tarnished was hard to restore.

In 1898, negotiations with the Spanish throne over Cuban independence were brought to a standstill by the publication of a private letter from the Spanish minister involved in negotiations, Dupuy de Lome, to the Spanish military leader in Cuba. While Dupuy’s depiction of the American President McKinley as “weak” and a “would-be politician” was easily compensated for with Dupuy’s forced resignation, recovering from the portions of the letter that showed that Spain was bluffing in terms of both its political and trade negotiations was less straightforward. Despite the previous US preference for a negotiated settlement, without
a change in the throne itself, the U.S. administration was increasingly wary of Spanish claims and talks faltered (Offner, 1992). Similarly, Madison, preceding the War of 1812, awaited news of King George III's failing health. Having been duped once by King George, Madison had hopes that the instatement of the Regent to the throne would allow a chance to negotiate the Ordinances of Council without resort to war (Stagg, 1983).

These cases illustrate how the effectiveness of diplomacy depends upon past behavior. They also illustrate the inadequacies of unitary actor models of reputation. Our comparisons of CCR and ACR show that the extent of credibility varies with domestic institutions. If reputations reside with leaders as the examples above suggest, domestically accountable leaders (i.e. democrats) can more credibly commit themselves because they jeopardize their domestic political tenure should they default. This offers democratic states an additional foreign policy tool unavailable to autocratic leaders who can commit themselves only in lesser sized crises.
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ENDNOTES

1. Schelling (1960) posits a distinction between messages to be conveyed: some are information in that they provide details about the current situation or environment while others, such as a threat to resist, are commitments. Since the provisions of facts need not necessarily be objective, we treat these types of messages together.


4. Crawford and Sobel (1982) show when preferences are antagonistic then cheap talk signal are uninformative.

5. As has commonly been recognized, for example by Gowa (1995) and Goe- mans (1995), non-democratic leaders potentially face much greater and/or fatal “audience costs” in the face of a coup than do democratic leaders. However, it is assumed that democracies provide a lower cost mechanism for accountability.

6. These statements are in contrast to the well-known quip by Sir Henry Wotton in the early 1600s: “An ambassador is an honest man sent abroad to lie for the commonwealth.” However, as Nichols points out, not only was this statement a self-proclaimed jest, but perhaps more importantly, King James never employed
Wotton again.

7. McGillivray and Smith (2000) examine cooperation in the context of the infinitely repeated prisoners’ dilemma. They show that when politically accountable, office-seeking leaders condition future cooperation upon the past good behavior of leaders, cooperation is more robust and is attainable under a far wider range of conditions than in unitary actor scenerios.


10. We will let $F_i$ have the standard ‘nice’ properties of continuity, differentiability, and full support.

11. Strictly $\beta = 1- F_B (\text{median}\{0, v_B, 1\})$ rather than simply $1- F_B (\text{median}\{0, v_B, 1\})$. If $\frac{k_B}{1-p}$ is greater than one then $v_B$ refers to the appropriate corner solution. To avoid additional notation we shall assume an interior solution. Similarly, when specifying A decision to attack we shall ignore the corner solutions in the notation.

12. quoted in Robbins (1994)

13. Milgrom, Weingast and North (1990) express concern about assuming common information about the behavior of all players. In the context they con-
sider, trade between large number of individuals, these concerns are justified. Yet here we are looking at the high politics of a relatively smaller set of players (i.e. nations). In additional the only relevant history we need to keep about players past behavior is whether they failed to live up to a pledge in the past.

14. For simplicity, we use the term political leader but this entity could vary depending on the political system. In a parliamentary system, political leadership may lay in the entire party rather than just the prime minister.

15. The model might be extented to allow nations to be randomly matched in each period, or allow for the possibility that the state is destroyed. While the later possibility might be interesting and perhaps more realistic; empirically few states completely fall. Furthermore, this does not change the fundamental structure of the game. In each period a nation is engaged in a dispute and realizes that its actions today affect its reputation and hence its ability to influence crises tomorrow.

16. We should prehaps add some qualifiers. We restrict our attention to equilibria in which messages are fully informative. This restriction has several advantages. First, from a practical perspective the mathematics of these equilibria are considerably simpler than those in which messages only partly reveal intentions. Second, the fully informative message equilibria represent the limiting case
to partially informative messages. Although we characterize these later equilibria in the appendix, their properties are strongly related to the limiting case. This leads to the third advantage that when contrasting the country-contingent and agent-contingent reputation, restricting attention to this single class of equilibria sharpens the comparison between the two mechanisms.

17. A second problem is that of incentive; as pointed out by a reviewer individual diplomats may be tempted to bluff to further their own career prospects.

18. Mercer (1996) quotes German Chancellor Bethmann Hollweg who in 1912 commented that “[i]f it were in the Russian interest to make war on us tomorrow, they would do so in cold blood.”


21. The threat of dismissal in the ACR mechanism limits the incentives of diplomats to bluff for short-term personal career gains.


23. However, in this case, we would expect to observe Country-Contingent Reputation behavior.

24. Reuters, September 8, 1999

25. Allison and Zelikow (1999) discuss how in 1962 President Kennedy, having
declared he would not allow ‘offensive’ weapons to be stationed on Cuba, felt compelled to take an aggressive stance during the Cuban missile crises believing he would be impeached otherwise. One of the many compelling reasons according to Allison and Zelikow was that failure to do so would “create public distrust of his word and his will.”

26. In scanning through the *Department of State Dispatch*, it is interesting to note the difference in the stated source of the commitment between the Bosnia and Haiti ultimatums. In the case of Haiti, Clinton and his spokesmen clearly attributed the commitment to the United States and to the president himself (see in particular Warren, 1993). In the case of Bosnia, the commitment discussed was NATO; and thus any US action contingent on NATO’s decision to back its threats (see Clinton, 1994a; Clinton 1994b).

27. We can additionally think of opportunity costs not simply the transaction costs of replacing a leader. Within democracies, as partisanship or policy preferences increases the cost of removing a particular elected official increases. While it makes little theoretical difference to the model, we could include these costs into the cost of removing the official. The more popular an elected leaders other policies are, the more expensive the leader is to remove, and the freer she is to make threats. This leads to the counter intuitive finding that the more popular
the leader, the less credible her threats.

Figure 1: The crisis game

Figure 0.1:
Figure 2: The Outcome in the Crisis Game given the type of each player

B resists only if $v_B$ is greater than $k_B/(1-p)$. A attacks providing $v_A$ is greater than $k_A/(1-p) + p$. However, if A were certain B would resist then A would only attack if $v_A$ is greater than $k_a/p$. 

Figure 0.2:
Figure 3: The minimum discount factor to ensure fully credible foreign policy statements under the Country Contingent Reputation and the Agent Contingent Reputation Strategies.

Parameters: $K_A = 0.2$, $K_B = 0.2$, $p = 0.5$ and $v_A$ and $v_B$ uniformly distributed over the unit interval.

Figure 0.3: