

Inefficient Concessions and Mediation

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Unrecognized States

Unrecognized states (URS): control and govern territory, seek recognition

- ▶ Six current URS more than 20 yrs old (+ Eastern Ukraine)
- ▶ No explanation in the literature for how this can be a stable outcome

What we do

We demonstrate unrecognized statehood can be a “status quo” outcome

- ▶ (SPN) Equilibrium in a repeated game
- ▶ Four players
 - ▶ Home government
 - ▶ Secessionist elite
 - ▶ Patron state
 - ▶ International community
- ▶ State variable: Status Quo (SQ) payoffs for secessionists

The General Idea

In each period: secessionists and gov't each choose (simultaneously) among {Fight, Status Quo, Cede}

- We need Status Quo to be a stage game best response for both secessionists and gov't

We add some more realistic elements:

1. Unrecognized status reduces Status Quo payoffs of secessionists each period
2. Patron and int'l community can make investments in both actors' payoffs

Outline of Talk

1. M
2. S
3. W

Timeline

Home State Actors

Central Government of Home State (g): desires reunification

Secessionists (s): desire recognized independence

- ▶ Central issue of contention: recognized independence vs. reunification.

Assumptions:

- ▶ Issue of status is indivisible, highly valued by both sides
- ▶ Insufficient credible side payments for easy settlement

Stage Game between Home Gov't & Secessionists

	Trust	Fight
Trust	T, T	-D, T+W
Fight	T+W, -D	W-D, W-D

where

- ▶ $T \geq 0$: Benefit from the other country playing Trust
- ▶ $W \geq 0$: Additional benefit from playing Fight
- ▶ $D \geq 0$: Damages due to the other country playing Fight

Assume $T > W - D$

The Players

- ▶ Payoffs: sum the discounted stage game payoffs plus any concessions
 - ▶ e.g. player's i 's payoff if both parties play "Trust" in every period: $\sum_{t=1}^{\infty} \delta_i^{t-1} T = \frac{T}{1-\delta_i}$
- ▶ Parameters are common knowledge with the exception of δ_i , which is country i 's private information
- ▶ Social welfare measured as sum of high types' expected utilities

Benchmark Model

Assume two types: δ_h and δ_l

- ▶ $\delta_h > \delta^* > \delta_l$ where δ^* is the cutoff for sustaining (Trust, Trust) eqm
- ▶ value of any concession to recipient = cost to giver

Some equilibria of interest

- ▶ Pool on 'Fight'
- ▶ Separating without concessions
- ▶ Separating through concessions

Separating through concessions

Theorem 2

In the best concessions separating equilibrium, high types give the smallest concession necessary to separate. Low types do not give a concession.

- ▶ The smallest concession is $p(T + D)$
- ▶ If p is low, high types are better off in the 'fight' pooling equilibrium

S

Assume cost of concession is g , the concession itself

- ▶ Allow giver of concession to also choose $0 \leq e \leq 1$, where benefit of concession is eg

P

With the

Add Money Burning

S

P

A

Conclusion

- We present