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# Diplomacy and domestic politics: the logic of two-level games

Robert D. Putnam

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## Introduction: the entanglements of domestic and international politics

Domestic politics and international relations are often somehow entangled, but our theories have not yet sorted out the puzzling tangle. It is fruitless to debate whether domestic politics really determine international relations, or the reverse. The answer to that question is clearly “Both, sometimes.” The more interesting questions are “When?” and “How?” This article offers a theoretical approach to this issue, but I begin with a story that illustrates the puzzle.

One illuminating example of how diplomacy and domestic politics can become entangled culminated at the Bonn summit conference of 1978.<sup>1</sup> In the mid-1970s, a coordinated program of global reflation, led by the “locomotive” economies of the United States, Germany, and Japan, had been proposed to foster Western recovery from the first oil shock.<sup>2</sup> This proposal

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1. The following account is drawn from Robert D. Putnam and C. Randall Henning, “The Bonn Summit of 1978: How Does International Economic Policy Coordination Actually Work?” *Brookings Discussion Papers in International Economics*, no. 53 (Washington, D.C.: Brookings Institution, October 1986), and Robert D. Putnam and Nicholas Bayne, *Hanging Together: Cooperation and Conflict in the Seven-Power Summits*, rev. ed. (Cambridge, Mass.: Harvard University Press, 1987), pp. 62–94.

2. Among interdependent economies, most economists believe, policies can often be more effective if they are internationally coordinated. For relevant citations, see Putnam and Bayne, *Hanging Together*, p. 24.

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had received a powerful boost from the incoming Carter administration and was warmly supported by the weaker countries, as well as the Organization for Economic Co-operation and Development (OECD) and many private economists, who argued that it would overcome international payments imbalances and speed growth all around. On the other hand, the Germans and the Japanese protested that prudent and successful economic managers should not be asked to bail out spendthrifts. Meanwhile, Jimmy Carter's ambitious National Energy Program remained deadlocked in Congress, while Helmut Schmidt led a chorus of complaints about the Americans' uncontrolled appetite for imported oil and their apparent unconcern about the falling dollar. All sides conceded that the world economy was in serious trouble, but it was not clear which was more to blame, tight-fisted German and Japanese fiscal policies or slack-jawed U.S. energy and monetary policies.

At the Bonn summit, however, a comprehensive package deal was approved, the clearest case yet of a summit that left all participants happier than when they arrived. Helmut Schmidt agreed to additional fiscal stimulus, amounting to 1 percent of GNP, Jimmy Carter committed himself to decontrol domestic oil prices by the end of 1980, and Takeo Fukuda pledged new efforts to reach a 7 percent growth rate. Secondary elements in the Bonn accord included French and British acquiescence in the Tokyo Round trade negotiations; Japanese undertakings to foster import growth and restrain exports; and a generic American promise to fight inflation. All in all, the Bonn summit produced a balanced agreement of unparalleled breadth and specificity. More remarkably, virtually all parts of the package were actually implemented.

Most observers at the time welcomed the policies agreed to at Bonn, although in retrospect there has been much debate about the economic wisdom of this package deal. However, my concern here is not whether the deal was wise economically, but how it became possible politically. My research suggests, first, that the key governments at Bonn adopted policies different from those that they would have pursued in the absence of international negotiations, but second, that agreement was possible only because a powerful minority within each government actually favored on domestic grounds the policy being demanded internationally.

Within Germany, a political process catalyzed by foreign pressures was surreptitiously orchestrated by expansionists inside the Schmidt government. Contrary to the public mythology, the Bonn deal was not forced on a reluctant or "altruistic" Germany. In fact, officials in the Chancellor's Office and the Economics Ministry, as well as in the Social Democratic party and the trade unions, had argued privately in early 1978 that further stimulus was domestically desirable, particularly in view of the approaching 1980 elections. However, they had little hope of overcoming the opposition of the Finance Ministry, the Free Democratic party (part of the government coalition), and the business and banking community, especially the leader-

ship of the Bundesbank. Publicly, Helmut Schmidt posed as reluctant to the end. Only his closest advisors suspected the truth: that the chancellor “let himself be pushed” into a policy that he privately favored, but would have found costly and perhaps impossible to enact without the summit’s package deal.

Analogously, in Japan a coalition of business interests, the Ministry of Trade and Industry (MITI), the Economic Planning Agency, and some expansion-minded politicians within the Liberal Democratic Party pushed for additional domestic stimulus, using U.S. pressure as one of their prime arguments against the stubborn resistance of the Ministry of Finance (MOF). Without internal divisions in Tokyo, it is unlikely that the foreign demands would have been met, but without the external pressure, it is even more unlikely that the expansionists could have overridden the powerful MOF. “Seventy percent foreign pressure, 30 percent internal politics,” was the disgruntled judgment of one MOF insider. “Fifty-fifty,” guessed an official from MITI.<sup>3</sup>

In the American case, too, internal politicking reinforced, and was reinforced by, the international pressure. During the summit preparations American negotiators occasionally invited their foreign counterparts to put more pressure on the Americans to reduce oil imports. Key economic officials within the administration favored a tougher energy policy, but they were opposed by the president’s closest political aides, even after the summit. Moreover, congressional opponents continued to stymie oil price decontrol, as they had under both Nixon and Ford. Finally, in April 1979, the president decided on gradual administrative decontrol, bringing U.S. prices up to world levels by October 1981. His domestic advisors thus won a postponement of this politically costly move until after the 1980 presidential election, but in the end, virtually every one of the pledges made at Bonn was fulfilled. Both proponents and opponents of decontrol agree that the summit commitment was at the center of the administration’s heated intramural debate during the winter of 1978–79 and instrumental in the final decision.<sup>4</sup>

In short, the Bonn accord represented genuine international policy coordination. Significant policy changes were pledged and implemented by the key participants. Moreover—although this counterfactual claim is necessarily harder to establish—those policy changes would very probably not have been pursued (certainly not the same scale and within the same time frame) in the absence of the international agreement. Within each country, one faction supported the policy shift being demanded of its country inter-

3. For a comprehensive account of the Japanese story, see I. M. Destler and Hisao Mitsuyu, “Locomotives on Different Tracks: Macroeconomic Diplomacy, 1977–1979,” in I. M. Destler and Hideo Sato, eds., *Coping with U.S.–Japanese Economic Conflicts* (Lexington, Mass.: Heath, 1982).

4. For an excellent account of U.S. energy policy during this period, see G. John Ikenberry, “Market Solutions for State Problems: The International and Domestic Politics of American Oil Decontrol,” *International Organization* 42 (Winter 1988).

nationally, but that faction was initially outnumbered. Thus, international pressure was a necessary condition for these policy shifts. On the other hand, without domestic resonance, international forces would not have sufficed to produce the accord, no matter how balanced and intellectually persuasive the overall package. In the end, each leader believed that what he was doing was in his nation's interest—and probably in his own political interest, too, even though not all his aides agreed.<sup>5</sup> Yet without the summit accord he probably would not (or could not) have changed policies so easily. In that sense, the Bonn deal successfully meshed domestic and international pressures.

Neither a purely domestic nor a purely international analysis could account for this episode. Interpretations cast in terms either of domestic causes and international effects ("Second Image"<sup>6</sup>) or of international causes and domestic effects ("Second Image Reversed"<sup>7</sup>) would represent merely "partial equilibrium" analyses and would miss an important part of the story, namely, how the domestic politics of several countries became entangled via an international negotiation. The events of 1978 illustrate that we must aim instead for "general equilibrium" theories that account simultaneously for the interaction of domestic and international factors. This article suggests a conceptual framework for understanding how diplomacy and domestic politics interact.

### Domestic–international entanglements: the state of the art

Much of the existing literature on relations between domestic and international affairs consists either of ad hoc lists of countless "domestic influences" on foreign policy or of generic observations that national and international affairs are somehow "linked."<sup>8</sup> James Rosenau was one of the first scholars to call attention to this area, but his elaborate taxonomy of "linkage politics" generated little cumulative research, except for a flurry of work correlating domestic and international "conflict behavior."<sup>9</sup>

A second stream of relevant theorizing began with the work by Karl

5. It is not clear whether Jimmy Carter fully understood the domestic implications of his Bonn pledge at the time. See Putnam and Henning, "The Bonn Summit," and Ikenberry, "Market Solutions for State Problems."

6. Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis* (New York: Columbia University Press, 1959).

7. Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization* 32 (Autumn 1978), pp. 881–911.

8. I am indebted to Stephan Haggard for enlightening discussions about domestic influences on international relations.

9. James Rosenau, "Toward the Study of National–International Linkages," in his *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: Free Press, 1969), as well as his "Theorizing Across Systems: Linkage Politics Revisited," in Jonathan Wilkenfeld, ed., *Conflict Behavior and Linkage Politics* (New York: David McKay, 1973), especially p. 49.

Deutsch and Ernst Haas on regional integration.<sup>10</sup> Haas, in particular, emphasized the impact of parties and interest groups on the process of European integration, and his notion of “spillover” recognized the feedback between domestic and international developments. However, the central dependent variable in this work was the hypothesized evolution of new supranational institutions, rather than specific policy developments, and when European integration stalled, so did this literature. The intellectual heirs of this tradition, such as Joseph Nye and Robert Keohane, emphasized interdependence and transnationalism, but the role of domestic factors slipped more and more out of focus, particularly as the concept of international regimes came to dominate the subfield.<sup>11</sup>

The “bureaucratic politics” school of foreign policy analysis initiated another promising attack on the problem of domestic–international interaction. As Graham Allison noted, “Applied to relations between nations, the bureaucratic politics model directs attention to intra-national games, the overlap of which constitutes international relations.”<sup>12</sup> Nevertheless, the nature of this “overlap” remained unclarified, and the theoretical contribution of this literature did not evolve much beyond the principle that bureaucratic interests matter in foreign policymaking.

More recently, the most sophisticated work on the domestic determinants of foreign policy has focused on “structural” factors, particularly “state strength.” The landmark works of Peter Katzenstein and Stephen Krasner, for example, showed the importance of domestic factors in foreign economic policy. Katzenstein captured the essence of the problem: “The main purpose of all strategies of foreign economic policy is to make domestic policies compatible with the international political economy.”<sup>13</sup> Both authors stressed the crucial point that central decision-makers (“the state”) must be concerned simultaneously with domestic and international pressures.

10. Karl W. Deutsch et al., *Political Community in the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton: Princeton University Press, 1957) and Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950–1957* (Stanford, Calif.: Stanford University Press, 1958).

11. Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Little, Brown, 1977). On the regime literature, including its neglect of domestic factors, see Stephan Haggard and Beth Simmons, “Theories of International Regimes,” *International Organization* 41 (Summer 1987), pp. 491–517.

12. Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971), p. 149.

13. Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), p. 4. See also Katzenstein, “International Relations and Domestic Structures: Foreign Economic Policies of Advanced Industrial States,” *International Organization* 30 (Winter 1976), pp. 1–45; Stephen D. Krasner, “United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness,” in Katzenstein, *Between Power and Plenty*, pp. 51–87; and Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978).



More debatable, however, is their identification of “state strength” as the key variable of interest. Given the difficulties of measuring “state strength,” this approach courts tautology,<sup>14</sup> and efforts to locate individual countries on this ambiguous continuum have proved problematic.<sup>15</sup> “State strength,” if reinterpreted as merely the opposite of governmental fragmentation, is no doubt of some interest in the comparative study of foreign policy. However, Gourevitch is quite correct to complain that “the strong state–weak state argument suggests that . . . the identity of the governing coalition does not matter. This is a very apolitical argument.”<sup>16</sup> Moreover, because “state structures” (as conceived in this literature) vary little from issue to issue or from year to year, such explanations are ill-suited for explaining differences across issues or across time (unless “time” is measured in decades or centuries). A more adequate account of the domestic determinants of foreign policy and international relations must stress *politics*: parties, social classes, interest groups (both economic and noneconomic), legislators, and even public opinion and elections, not simply executive officials and institutional arrangements.<sup>17</sup>

Some work in the “state-centric” genre represents a unitary-actor model run amok. “The central proposition of this paper,” notes one recent study, “is that the state derives its interests from and advocates policies consistent with the international system at all times and under all circumstances.”<sup>18</sup> In fact, on nearly all important issues “central decision-makers” disagree about what the national interest and the international context demand. Even if we arbitrarily exclude the legislature from “the state” (as much of this literature does), it is wrong to assume that the executive is unified in its views. Certainly this was true in *none* of the states involved in the 1978 negotiations. What was “the” position of the German or Japanese state on macroeconomic policy in 1978, or of the American state on energy policy? If the term “state” is to be used to mean “central decision-makers,” we should treat it as a plural noun: not “the state, it . . .” but “the state, they . . .” Central executives have a special role in mediating domestic and international pressures precisely because they are directly exposed to both spheres, not because

14. For example, see Krasner, “United States Commercial and Money Policy,” p. 55: “The central analytic characteristic that determines the ability of a state to overcome domestic resistance is its strength in relation to its own society.”

15. Helen Milner, “Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the United States during the 1970s,” *International Organization* 41 (Autumn 1987), pp. 639–65.

16. Gourevitch, “The Second Image Reversed,” p. 903.

17. In their more descriptive work, “state-centric” scholars are often sensitive to the impact of social and political conflicts, such as those between industry and finance, labor and business, and export-oriented versus import-competing sectors. See Katzenstein, *Between Power and Plenty*, pp. 333–36, for example.

18. David A. Lake, “The State as Conduit: The International Sources of National Political Action,” presented at the 1984 annual meeting of the American Political Science Association, p. 13.

they are united on all issues nor because they are insulated from domestic politics.

Thus, the state-centric literature is an uncertain foundation for theorizing about how domestic and international politics interact. More interesting are recent works about the impact of the international economy on domestic politics and domestic economic policy, such as those by Alt, Evans, Gourevitch, and Katzenstein.<sup>19</sup> These case studies, representing diverse methodological approaches, display a theoretical sophistication on the international-to-domestic causal connection far greater than is characteristic of comparable studies on the domestic-to-international half of the loop. Nevertheless, these works do not purport to account for instances of reciprocal causation, nor do they examine cases in which the domestic politics of several countries became entangled internationally.

In short, we need to move beyond the mere observation that domestic factors influence international affairs and vice versa, and beyond simple catalogs of instances of such influence, to seek theories that integrate both spheres, accounting for the areas of entanglement between them.

## Two-level games: a metaphor for domestic-international interactions

Over two decades ago Richard E. Walton and Robert B. McKersie offered a “behavioral theory” of social negotiations that is strikingly applicable to international conflict and cooperation.<sup>20</sup> They pointed out, as all experienced negotiators know, that the unitary-actor assumption is often radically misleading. As Robert Strauss said of the Tokyo Round trade negotiations: “During my tenure as Special Trade Representative, I spent as much time negotiating with domestic constituents (both industry and labor) and members of the U.S. Congress as I did negotiating with our foreign trading partners.”<sup>21</sup>

19. James E. Alt, “Crude Politics: Oil and the Political Economy of Unemployment in Britain and Norway, 1970–1985,” *British Journal of Political Science* 17 (April 1987), pp. 149–99; Peter B. Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979); Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986); Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

20. Richard E. Walton and Robert B. McKersie, *A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System* (New York: McGraw-Hill, 1965).

21. Robert S. Strauss, “Foreword,” in Joan E. Twigg, *The Tokyo Round of Multilateral Trade Negotiations: A Case Study in Building Domestic Support for Diplomacy* (Washington, D.C.: Georgetown University Institute for the Study of Diplomacy, 1987), p. vii. Former Secretary of Labor John Dunlop is said to have remarked that “bilateral negotiations usually require three agreements—one across the table and one on each side of the table,” as cited in Howard Raiffa, *The Art and Science of Negotiation* (Cambridge, Mass.: Harvard University Press, 1982), p. 166.



The politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.

Each national political leader appears at both game boards. Across the international table sit his foreign counterparts, and at his elbows sit diplomats and other international advisors. Around the domestic table behind him sit party and parliamentary figures, spokespersons for domestic agencies, representatives of key interest groups, and the leader's own political advisors. The unusual complexity of this two-level game is that moves that are rational for a player at one board (such as raising energy prices, conceding territory, or limiting auto imports) may be impolitic for that same player at the other board. Nevertheless, there are powerful incentives for consistency between the two games. Players (and kibitzers) will tolerate some differences in rhetoric between the two games, but in the end either energy prices rise or they don't.

The political complexities for the players in this two-level game are staggering. Any key player at the international table who is dissatisfied with the outcome may upset the game board, and conversely, any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat. On occasion, however, clever players will spot a move on one board that will trigger realignments on other boards, enabling them to achieve otherwise unattainable objectives. This "two-table" metaphor captures the dynamics of the 1978 negotiations better than any model based on unitary national actors.

Other scholars have noted the multiple-game nature of international relations. Like Walton and McKersie, Daniel Druckman has observed that a negotiator "attempts to build a package that will be acceptable both to the other side and to his bureaucracy." However, Druckman models the domestic and international processes separately and concludes that "the interaction between the processes . . . remains a topic for investigation."<sup>22</sup> Robert Axelrod has proposed a "Gamma paradigm," in which the U.S. president pursues policies vis-à-vis the Soviet Union with an eye towards maximizing his popularity at home. However, this model disregards domestic

22. Daniel Druckman, "Boundary Role Conflict: Negotiation as Dual Responsiveness," in I. William Zartman, ed., *The Negotiation Process: Theories and Applications* (Beverly Hills: Sage, 1978), pp. 100–101, 109. For a review of the social-psychological literature on bargainers as representatives, see Dean G. Pruitt, *Negotiation Behavior* (New York: Academic Press, 1981), pp. 41–43.

cleavages, and it postulates that one of the international actors—the Soviet leadership—cares only about international gains and faces no domestic constraint while the other—the U.S. president—cares only about domestic gains, except insofar as his public evaluates the international competition.<sup>23</sup> Probably the most interesting empirically based theorizing about the connection between domestic and international bargaining is that of Glenn Snyder and Paul Diesing. Though working in the neo-realist tradition with its conventional assumption of unitary actors, they found that, in fully half of the crises they studied, top decision-makers were *not* unified. They concluded that prediction of international outcomes is significantly improved by understanding internal bargaining, especially with respect to minimally acceptable compromises.<sup>24</sup>

Metaphors are not theories, but I am comforted by Max Black's observation that "perhaps every science must start with metaphor and end with algebra; and perhaps without the metaphor there would never have been any algebra."<sup>25</sup> Formal analysis of any game requires well-defined rules, choices, payoffs, players, and information, and even then, many simple two-person, mixed-motive games have no determinate solution. Deriving analytic solutions for two-level games will be a difficult challenge. In what follows I hope to motivate further work on that problem.

### **Towards a theory of ratification: the importance of "win-sets"**

Consider the following stylized scenario that might apply to any two-level game. Negotiators representing two organizations meet to reach an agreement between them, subject to the constraint that any tentative agreement must be ratified by their respective organizations. The negotiators might be heads of government representing nations, for example, or labor and management representatives, or party leaders in a multiparty coalition, or a finance minister negotiating with an IMF team, or leaders of a House–Senate conference committee, or ethnic-group leaders in a consociational democracy. For the moment, we shall presume that each side is represented by a single leader or "chief negotiator," and that this individual has no indepen-

23. Robert Axelrod, "The Gamma Paradigm for Studying the Domestic Influence on Foreign Policy," prepared for delivery at the 1987 Annual Meeting of the International Studies Association.

24. Glenn H. Snyder and Paul Diesing, *Conflict Among Nations: Bargaining, Decision Making, and System Structure in International Crises* (Princeton: Princeton University Press, 1977), pp. 510–25.

25. Max Black, *Models and Metaphors* (Ithaca, N.Y.: Cornell University Press, 1962), p. 242, as cited in Duncan Snidal, "The Game Theory of International Politics," *World Politics* 38 (October 1985), p. 36n.

dent policy preferences, but seeks simply to achieve an agreement that will be attractive to his constituents.<sup>26</sup>

It is convenient analytically to decompose the process into two stages:

1. bargaining between the negotiators, leading to a tentative agreement; call that Level I.
2. separate discussions within each group of constituents about whether to ratify the agreement; call that Level II.

This sequential decomposition into a negotiation phase and a ratification phase is useful for purposes of exposition, although it is not descriptively accurate. In practice, expectational effects will be quite important. There are likely to be prior consultations and bargaining at Level II to hammer out an initial position for the Level I negotiations. Conversely, the need for Level II ratification is certain to affect the Level I bargaining. In fact, expectations of rejection at Level II may abort negotiations at Level I without any formal action at Level II. For example, even though both the American and Iranian governments seem to have favored an arms-for-hostages deal, negotiations collapsed as soon as they became public and thus liable to *de facto* “ratification.” In many negotiations, the two-level process may be iterative, as the negotiators try out possible agreements and probe their constituents’ views. In more complicated cases, as we shall see later, the constituents’ views may themselves evolve in the course of the negotiations. Nevertheless, the requirement that any Level I agreement must, in the end, be ratified at Level II imposes a crucial theoretical link between the two levels.

“Ratification” may entail a formal voting procedure at Level II, such as the constitutionally required two-thirds vote of the U.S. Senate for ratifying treaties, but I use the term generically to refer to any decision-process at Level II that is required to endorse or implement a Level I agreement, whether formally or informally. It is sometimes convenient to think of ratification as a parliamentary function, but that is not essential. The actors at Level II may represent bureaucratic agencies, interest groups, social classes, or even “public opinion.” For example, if labor unions in a debtor country withhold necessary cooperation from an austerity program that the government has negotiated with the IMF, Level II ratification of the agreement may be said to have failed; *ex ante* expectations about that prospect will surely influence the Level I negotiations between the government and the IMF.

Domestic ratification of international agreements might seem peculiar to democracies. As the German Finance Minister recently observed, “The limit of expanded cooperation lies in the fact that we are democracies, and we

26. To avoid unnecessary complexity, my argument throughout is phrased in terms of a single chief negotiator, although in many cases some of his responsibilities may be delegated to aides. Later in this article I relax the assumption that the negotiator has no independent preferences.

need to secure electoral majorities at home.”<sup>27</sup> However, ratification need not be “democratic” in any normal sense. For example, in 1930 the Meiji Constitution was interpreted as giving a special role to the Japanese military in the ratification of the London Naval Treaty;<sup>28</sup> and during the ratification of any agreement between Catholics and Protestants in Northern Ireland, presumably the IRA would throw its power onto the scales. We need only stipulate that, for purposes of counting “votes” in the ratification process, different forms of political power can be reduced to some common denominator.

The only formal constraint on the ratification process is that since the identical agreement must be ratified by both sides, a preliminary Level I agreement cannot be amended at Level II without reopening the Level I negotiations. In other words, final ratification must be simply “voted” up or down; any modification to the Level I agreement counts as a rejection, unless that modification is approved by all other parties to the agreement.<sup>29</sup> Congresswoman Lynn Martin captured the logic of ratification when explaining her support for the 1986 tax reform bill as it emerged from the conference committee: “As worried as I am about what this bill does, I am even more worried about the current code. The choice today is not between this bill and a perfect bill; the choice is between this bill and the death of tax reform.”<sup>30</sup>

Given this set of arrangements, we may define the “win-set” for a given Level II constituency as the set of all possible Level I agreements that would “win”—that is, gain the necessary majority among the constituents—when simply voted up or down.<sup>31</sup> For two quite different reasons, the contours of the Level II win-sets are very important for understanding Level I agreements.

**First, larger win-sets make Level I agreement more likely, *ceteris paribus*.**<sup>32</sup> By definition, any successful agreement must fall within the Level II win-

27. Gerhardt Stoltenberg, *Wall Street Journal Europe*, 2 October 1986, as cited in C. Randall Henning, *Macroeconomic Diplomacy in the 1980s: Domestic Politics and International Conflict Among the United States, Japan, and Europe*, Atlantic Paper No. 65 (New York: Croom Helm, for the Atlantic Institute for International Affairs, 1987), p. 1.

28. Ito Takashi, “Conflicts and Coalition in Japan, 1930: Political Groups and the London Naval Disarmament Conference,” in Sven Groennings et al., eds, *The Study of Coalition Behavior* (New York: Holt, Rinehart, & Winston, 1970); Kobayashi Tatsuo, “The London Naval Treaty, 1930,” in James W. Morley, ed., *Japan Erupts: The London Naval Conference and the Manchurian Incident, 1928–1932* (New York: Columbia University Press, 1984), pp. 11–117. I am indebted to William Jarosz for this example.

29. This stipulation is, in fact, characteristic of most real-world ratification procedures, such as House and Senate action on conference committee reports, although it is somewhat violated by the occasional practice of appending “reservations” to the ratification of treaties.

30. *New York Times*, 26 September 1986.

31. For the conception of win-set, see Kenneth A. Shepsle and Barry R. Weingast, “The Institutional Foundations of Committee Power,” *American Political Science Review* 81 (March 1987), pp. 85–104. I am indebted to Professor Shepsle for much help on this topic.

32. To avoid tedium, I do not repeat the “other things being equal” proviso in each of the propositions that follow. Under some circumstances an expanded win-set might actually make practicable some outcome that could trigger a dilemma of collective action. See Vincent P. Crawford, “A Theory of Disagreement in Bargaining,” *Econometrica* 50 (May 1982), pp. 607–37.

sets of each of the parties to the accord. Thus, agreement is possible only if those win-sets overlap, and the larger each win-set, the more likely they are to overlap. Conversely, the smaller the win-sets, the greater the risk that the negotiations will break down. For example, during the prolonged pre-war Anglo–Argentine negotiations over the Falklands/Malvinas, several tentative agreements were rejected in one capital or the other for domestic political reasons; when it became clear that the initial British and Argentine win-sets did not overlap at all, war became virtually inevitable.<sup>33</sup>

A brief, but important digression: The possibility of failed ratification suggests that game theoretical analyses should distinguish between *voluntary* and *involuntary defection*. Voluntary defection refers to renegeing by a rational egoist in the absence of enforceable contracts—the much-analyzed problem posed, for example, in the prisoner’s dilemma and other dilemmas of collective action. Involuntary defection instead reflects the behavior of an agent who is unable to deliver on a promise because of failed ratification. Even though these two types of behavior may be difficult to disentangle in some instances, the underlying logic is quite different.

The prospects for international cooperation in an anarchic, “self-help” world are often said to be poor because “unfortunately, policy makers generally have an incentive to cheat.”<sup>34</sup> However, as Axelrod, Keohane, and others have pointed out, the temptation to defect can be dramatically reduced among players who expect to meet again.<sup>35</sup> If policymakers in an anarchic world were in fact constantly tempted to cheat, certain features of the 1978 story would be very anomalous. For example, even though the Bonn agreement was negotiated with exquisite care, it contained no provisions for temporal balance, sequencing, or partial conditionality that might have protected the parties from unexpected defection. Moreover, the Germans and the Japanese irretrievably enacted their parts of the bargain more than six months before the president’s action on oil price decontrol and nearly two years before that decision was implemented. Once they had done so, the temptation to the president to renege should have been overpowering, but in fact virtually no one on either side of the decontrol debate within the administration dismissed the Bonn pledge as irrelevant. In short, the Bonn “promise” had political weight, because renegeing would have had high political and diplomatic costs.

33. The Sunday Times Insight Team, *The Falklands War* (London: Sphere, 1982); Max Hastings and Simon Jenkins, *The Battle for the Falklands* (New York: Norton, 1984); Alejandro Dabat and Luis Lorenzano, *Argentina: The Malvinas and the End of Military Rule* (London: Verso, 1984). I am indebted to Louise Richardson for these citations.

34. Matthew E. Canzoneri and Jo Anna Gray, “Two Essays on Monetary Policy in an Interdependent World,” International Finance Discussion Paper 219 (Board of Governors of the Federal Reserve System, February 1983).

35. Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), esp. p. 116; and the special issue of *World Politics*, “Cooperation Under Anarchy,” Kenneth A. Oye, ed., vol. 38 (October 1985).

On the other hand, in any two-level game, the credibility of an official commitment may be low, even if the reputational costs of renegeing are high, for the negotiator may be unable to guarantee ratification. The failure of Congress to ratify abolition of the “American Selling Price” as previously agreed during the Kennedy Round trade negotiations is one classic instance; another is the inability of Japanese Prime Minister Sato to deliver on a promise made to President Nixon during the “Textile Wrangle.”<sup>36</sup> A key obstacle to Western economic coordination in 1985–87 was the Germans’ fear that the Reagan administration would be politically unable to carry out any commitment it might make to cut the U.S. budget deficit, no matter how well-intentioned the president.

Unlike concerns about voluntary defection, concern about “deliver-ability” was a prominent element in the Bonn negotiations. In the post-summit press conference, President Carter stressed that “each of us has been careful not to promise more than he can deliver.” A major issue throughout the negotiations was Carter’s own ability to deliver on his energy commitments. The Americans worked hard to convince the others, first, that the president was under severe domestic political constraints on energy issues, which limited what he could promise, but second, that he could deliver what he was prepared to promise. The negotiators in 1978 seemed to follow this presumption about one another: “He will do what he has promised, so long as what he has promised is clear and within his power.”

Involuntary defection, and the fear of it, can be just as fatal to prospects for cooperation as voluntary defection. Moreover, in some cases, it may be difficult, both for the other side and for outside analysts, to distinguish voluntary and involuntary defection, particularly since a strategic negotiator might seek to misrepresent a voluntary defection as involuntary. Such behavior is itself presumably subject to some reputational constraints, although it is an important empirical question how far reputations generalize from collectivities to negotiators and vice versa. Credibility (and thus the ability to strike deals) at Level I is enhanced by a negotiator’s (demonstrated) ability to “deliver” at Level II; this was a major strength of Robert Strauss in the Tokyo Round negotiations.<sup>37</sup>

Involuntary defection can only be understood within the framework of a two-level game. Thus, to return to the issue of win-sets, the smaller the win-sets, the greater the risk of involuntary defection, and hence the more applicable the literature about dilemmas of collective action.<sup>38</sup>

36. I. M. Destler, Haruhiro Fukui, and Hideo Sato, *The Textile Wrangle: Conflict in Japanese–American Relations, 1969–1971* (Ithaca, N.Y.: Cornell University Press, 1979), pp. 121–57.

37. Gilbert R. Winham, “Robert Strauss, the MTN, and the Control of Faction,” *Journal of World Trade Law* 14 (September–October 1980), pp. 377–97, and his *International Trade and the Tokyo Round* (Princeton: Princeton University Press, 1986).

38. This discussion implicitly assumes uncertainty about the contours of the win-sets on the part of the Level I negotiators, for if the win-sets were known with certainty, the negotiators would never propose for ratification an agreement that would be rejected.



The second reason why win-set size is important is that **the relative size of the respective Level II win-sets will affect the distribution of the joint gains from the international bargain.** The larger the perceived win-set of a negotiator, the more he can be “pushed around” by the other Level I negotiators. Conversely, a small domestic win-set can be a bargaining advantage: “I’d like to accept your proposal, but I could never get it accepted at home.” Lamenting the domestic constraints under which one must operate is (in the words of one experienced British diplomat) “the natural thing to say at the beginning of a tough negotiation.”<sup>39</sup>

This general principle was, of course, first noted by Thomas Schelling nearly thirty years ago:

The power of a negotiator often rests on a manifest inability to make concessions and meet demands. . . . When the United States Government negotiates with other governments . . . if the executive branch negotiates under legislative authority, with its position constrained by law, . . . then the executive branch has a firm position that is visible to its negotiating partners. . . . [Of course, strategies such as this] run the risk of establishing an immovable position that goes beyond the ability of the other to concede, and thereby provoke the likelihood of stalemate or breakdown.<sup>40</sup>

Writing from a strategist’s point of view, Schelling stressed ways in which win-sets may be manipulated, but even when the win-set itself is beyond the negotiator’s control, he may exploit its leverage. A Third World leader whose domestic position is relatively weak (Argentina’s Alfonsín?) should be able to drive a better bargain with his international creditors, other things being equal, than one whose domestic standing is more solid (Mexico’s de la Madrid?).<sup>41</sup> The difficulties of winning congressional ratification are often exploited by American negotiators. During the negotiation of the Panama Canal Treaty, for example, “the Secretary of State warned the Panamanians several times . . . that the new treaty would have to be acceptable to at least sixty-seven senators,” and “Carter, in a personal letter to Torrijos, warned that further concessions by the United States would seriously threaten chances for Senate ratification.”<sup>42</sup> Precisely to forestall such tactics, opponents may demand that a negotiator ensure himself “negotiating room” at Level II before opening the Level I negotiations.

The “sweet-and-sour” implications of win-set size are summarized in Figure 1, representing a simple zero-sum game between X and Y.  $X_M$  and

39. Geoffrey W. Harrison, in John C. Campbell, ed., *Successful Negotiation: Trieste 1954* (Princeton: Princeton University Press, 1976), p. 62.

40. Thomas C. Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1960), pp. 19–28.

41. I am grateful to Lara Putnam for this example. For supporting evidence, see Robert R. Kaufman, “Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil, Mexico,” *International Organization* 39 (Summer 1985), pp. 473–503.

42. W. Mark Habeeb and I. William Zartman, *The Panama Canal Negotiations* (Washington, D.C.: Johns Hopkins Foreign Policy Institute, 1986), pp. 40, 42.

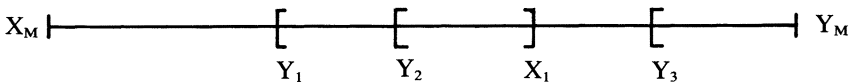


FIGURE 1. *Effects of reducing win-set size*

$Y_M$  represent the maximum outcomes for X and Y, respectively, while  $X_1$  and  $Y_1$  represent the minimal outcomes that could be ratified. At this stage any agreement in the range between  $X_1$  and  $Y_1$  could be ratified by both parties. If the win-set of Y were contracted to, say,  $Y_2$  (perhaps by requiring a larger majority for ratification), outcomes between  $Y_1$  and  $Y_2$  would no longer be feasible, and the range of feasible agreements would thus be truncated in Y's favor. However, if Y, emboldened by this success, were to reduce its win-set still further to  $Y_3$  (perhaps by requiring unanimity for ratification), the negotiators would suddenly find themselves deadlocked, for the win-sets no longer overlap at all.<sup>43</sup>

### Determinants of the win-set

It is important to understand what circumstances affect win-set size. Three sets of factors are especially important:

43. Several investigators in other fields have recently proposed models of linked games akin to this "two-level" game. Kenneth A. Shepsle and his colleagues have used the notion of "interconnected games" to analyze, for example, the strategy of a legislator simultaneously embedded in two games, one in the legislative arena and the other in the electoral arena. In this model, a given action is simultaneously a move in two different games, and one player maximizes the sum of his payoffs from the two games. See Arthur Denzau, William Riker, and Kenneth Shepsle, "Farquharson and Fenno: Sophisticated Voting and Home Style," *American Political Science Review* 79 (December 1985), pp. 1117–34; and Kenneth Shepsle, "Cooperation and Institutional Arrangements," unpublished manuscript, February 1986. This approach is similar to models recently developed by economists working in the "rational expectations" genre. In these models, a government contends simultaneously against other governments and against domestic trade unions over monetary policy. See, for example, Kenneth Rogoff, "Can International Monetary Policy Cooperation be Counterproductive," *Journal of International Economics* 18 (May 1985), pp. 199–217, and Roland Vaubel, "A Public Choice Approach to International Organization," *Public Choice* 51 (1986), pp. 39–57. George Tsebelis ("Nested Games: The Cohesion of French Coalitions," *British Journal of Political Science* 18 [April 1988], pp. 145–70) has developed a theory of "nested games," in which two alliances play a competitive game to determine total payoffs, while the individual players within each alliance contend over their shares. Fritz Sharpf ("A Game-Theoretical Interpretation of Inflation and Unemployment in Western Europe," *Journal of Public Policy* 7 [1988], pp. 227–257) interprets macroeconomic policy as the joint outcome of two simultaneous games; in one, the government plays against the unions, while in the other, it responds to the anticipated reactions of the electorate. James E. Alt and Barry Eichengreen ("Parallel and Overlapping Games: Theory and an Application to the European Gas Trade," unpublished manuscript, November 1987) offer a broader typology of linked games, distinguishing between "parallel" games, in which "the same opponents play against one another at the same time in more than one arena," and "overlapping" games, which arise "when a particular player is engaged at the same time in games against distinct opponents, and when the strategy pursued in one game limits the strategies available in the other." Detailed comparison of these various linked-game models is a task for the future.

- Level II preferences and coalitions
- Level II institutions
- Level I negotiators' strategies

Let us consider each in turn.

*1. The size of the win-set depends on the distribution of power, preferences, and possible coalitions among Level II constituents.*

Any testable two-level theory of international negotiation must be rooted in a theory of domestic politics, that is, a theory about the power and preferences of the major actors at Level II. This is not the occasion for even a cursory evaluation of the relevant alternatives, except to note that the two-level conceptual framework could in principle be married to such diverse perspectives as Marxism, interest group pluralism, bureaucratic politics, and neo-corporatism. For example, arms negotiations might be interpreted in terms of a bureaucratic politics model of Level II politicking, while class analysis or neo-corporatism might be appropriate for analyzing international macroeconomic coordination.

Abstracting from the details of Level II politics, however, it is possible to sketch certain principles that govern the size of the win-sets. For example, the lower the cost of "no-agreement" to constituents, the smaller the win-set.<sup>44</sup> Recall that ratification pits the proposed agreement, *not* against an array of other (possibly attractive) alternatives, but only against "no-agreement."<sup>45</sup> No-agreement often represents the status quo, although in some cases no-agreement may in fact lead to a worsening situation; that might be a reasonable description of the failed ratification of the Versailles Treaty.

Some constituents may face low costs from no-agreement, and others high costs, and the former will be more skeptical of Level I agreements than the latter. Members of two-wage-earner families should be readier to strike, for example, than sole breadwinners, and small-town barbers should be more isolationist than international bankers. In this sense, some constituents may offer either generic opposition to, or generic support for, Level I agreements, more or less independently of the specific content of the agreement, although naturally other constituents' decisions about ratification will be closely conditioned on the specifics. The size of the win-set (and thus the negotiating

44. Thomas Romer and Howard Rosenthal, "Political Resource Allocation, Controlled Agendas, and the Status Quo," *Public Choice* 33 (no. 4, 1978), pp. 27–44.

45. In more formal treatments, the no-agreement outcome is called the "reversion point." A given constituent's evaluation of no-agreement corresponds to what Raiffa terms a seller's "walk-away price," that is, the price below which he would prefer "no-deal." (Raiffa, *Art and Science of Negotiation*.) No-agreement is equivalent to what Snyder and Diesing term "break-down," or the expected cost of war. (Snyder and Diesing, *Conflict Among Nations*.)

room of the Level I negotiator) depends on the relative size of the “isolationist” forces (who oppose international cooperation in general) and the “internationalists” (who offer “all-purpose” support). All-purpose support for international agreements is probably greater in smaller, more dependent countries with more open economies, as compared to more self-sufficient countries, like the United States, for most of whose citizens the costs of no-agreement are generally lower. *Ceteris paribus*, more self-sufficient states with smaller win-sets should make fewer international agreements and drive harder bargains in those that they do make.

In some cases, evaluation of no-agreement may be the *only* significant disagreement among the Level II constituents, because their interests are relatively homogeneous. For example, if oil imports are to be limited by an agreement among the consuming nations—the sort of accord sought at the Tokyo summit of 1979, for example—then presumably every constituent would prefer to maximize his nation’s share of the available supply, although some constituents may be more reluctant than others to push too hard, for fear of losing the agreement entirely. Similarly, in most wage negotiations, the interests of constituents (either workers or shareholders) are relatively homogeneous, and the most significant cleavage within the Level II constituencies is likely to be between “hawks” and “doves,” depending on their willingness to risk a strike. (Walton and McKersie refer to these as “boundary” conflicts, in which the negotiator is caught between his constituency and the external organization.) Other international examples in which domestic interests are relatively homogeneous except for the evaluation of no-agreement might include the SALT talks, the Panama Canal Treaty negotiations, and the Arab-Israeli conflict. A negotiator is unlikely to face criticism at home that a proposed agreement reduces the opponents’ arms too much, offers too little compensation for foreign concessions, or contains too few security guarantees for the other side, although in each case opinions may differ on how much to risk a negotiating deadlock in order to achieve these objectives.

The distinctive nature of such “homogeneous” issues is thrown into sharp relief by contrasting them to cases in which constituents’ preferences are more heterogeneous, so that any Level I agreement bears unevenly on them. Thus, an internationally coordinated reflation may encounter domestic opposition *both* from those who think it goes too far (bankers, for example) *and* from those who think it does not go far enough (unions, for example). In 1919, some Americans opposed the Versailles Treaty because it was too harsh on the defeated powers and others because it was too lenient.<sup>46</sup> Such patterns are even more common, as we shall shortly see, where the negotiation involves multiple issues, such as an arms agreement that involves tradeoffs between seaborne and airborne weapons, or a labor agreement that

46. Thomas A. Bailey, *Woodrow Wilson and the Great Betrayal* (New York: Macmillan, 1945), pp. 16–37.

involves tradeoffs between take-home pay and pensions. (Walton and McKersie term these “factional” conflicts, because the negotiator is caught between contending factions within his own organization.)

The problems facing Level I negotiators dealing with a *homogeneous* (or “boundary”) conflict are quite different from those facing negotiators dealing with a *heterogeneous* (or “factional”) conflict. In the former case, the more the negotiator can win at Level I—the higher his national oil allocation, the deeper the cuts in Soviet throw-weight, the lower the rent he promises for the Canal, and so on—the better his odds of winning ratification. In such cases, the negotiator may use the implicit threat from his own hawks to maximize his gains (or minimize his losses) at Level I, as Carter and Vance did in dealing with the Panamanians. Glancing over his shoulder at Level II, the negotiator’s main problem in a homogeneous conflict is to manage the discrepancy between his constituents’ expectations and the negotiable outcome. Neither negotiator is likely to find much sympathy for the enemy’s demands among his own constituents, nor much support for his constituents’ positions in the enemy camp. The effect of domestic division, embodied in hard-line opposition from hawks, is to raise the risk of involuntary defection and thus to impede agreement at Level I. The common belief that domestic politics is inimical to international cooperation no doubt derives from such cases.

The task of a negotiator grappling instead with a heterogeneous conflict is more complicated, but potentially more interesting. Seeking to maximize the chances of ratification, he cannot follow a simple “the more, the better” rule of thumb; imposing more severe reparations on the Germans in 1919 would have gained some votes at Level II but lost others, as would hastening the decontrol of domestic oil prices in 1978. In some cases, these lines of cleavage within the Level II constituencies will cut across the Level I division, and the Level I negotiator may find silent allies at his opponent’s domestic table. German labor unions might welcome foreign pressure on their own government to adopt a more expansive fiscal policy, and Italian bankers might welcome international demands for a more austere Italian monetary policy. Thus transnational alignments may emerge, tacit or explicit, in which domestic interests pressure their respective governments to adopt mutually supportive policies. This is, of course, my interpretation of the 1978 Bonn summit accord.

In such cases, domestic divisions may actually improve the prospects for international cooperation. For example, consider two different distributions of constituents’ preferences as between three alternatives: A, B, and no-agreement. If 45 percent of the constituents rank these  $A > \text{no-agreement} > B$ , 45 percent rank them  $B > \text{no-agreement} > A$ , and 10 percent rank them  $B > A > \text{no-agreement}$ , then both A and B are in the win-set, even though B would win in a simple Level-II-only game. On the other hand, if 90 percent rank the alternatives  $A > \text{no-agreement} > B$ , while 10 percent still rank them  $B > A > \text{no-agreement}$ , then only A is in the win-set. In this sense,

a government that is internally divided is more likely to be able to strike a deal internationally than one that is firmly committed to a single policy.<sup>47</sup> Conversely, to impose binding ex ante instructions on the negotiators in such a case might exclude some Level I outcomes that would, in fact, be ratifiable in both nations.<sup>48</sup>

Thus far we have implicitly assumed that all eligible constituents will participate in the ratification process. In fact, however, participation rates vary across groups and across issues, and this variation often has implications for the size of the win-set. For example, when the costs and/or benefits of a proposed agreement are relatively concentrated, it is reasonable to expect that those constituents whose interests are most affected will exert special influence on the ratification process.<sup>49</sup> One reason why Level II games are more important for trade negotiations than in monetary matters is that the "abstention rate" is higher on international monetary issues than on trade issues.<sup>50</sup>

The composition of the active Level II constituency (and hence the character of the win-set) also varies with the politicization of the issue. Politicization often activates groups who are less worried about the costs of no-agreement, thus reducing the effective win-set. For example, politicization of the Panama Canal issue seems to have reduced the negotiating flexibility on both sides of the diplomatic table.<sup>51</sup> This is one reason why most professional diplomats emphasize the value of secrecy to successful negotiations. However, Woodrow Wilson's transcontinental tour in 1919 reflected the opposite calculation, namely, that by expanding the active constituency he could ensure ratification of the Versailles Treaty, although in the end this strategy proved fruitless.<sup>52</sup>

Another important restriction of our discussion thus far has been the

47. Raiffa notes that "the more diffuse the positions are within each side, the easier it might be to achieve external agreement." (Raiffa, *Art and Science of Negotiation*, p. 12.) For the conventional view, by contrast, that domestic unity is generally a precondition for international agreement, see Michael Artis and Sylvia Ostry, *International Economic Policy Coordination*, Chatham House Papers: 30 (London: Routledge & Kegan Paul, 1986), pp. 75–76.

48. "Meaningful consultation with other nations becomes very difficult when the internal process of decision-making already has some of the characteristics of compacts between quasi-sovereign entities. There is an increasing reluctance to hazard a hard-won domestic consensus in an international forum." Henry A. Kissinger, "Domestic Structure and Foreign Policy," in James N. Rosenau, ed., *International Politics and Foreign Policy* (New York: Free Press, 1969), p. 266.

49. See James Q. Wilson, *Political Organization* (New York: Basic Books, 1975) on how the politics of an issue are affected by whether the costs and the benefits are concentrated or diffuse.

50. Another factor fostering abstention is the greater complexity and opacity of monetary issues; as Gilbert R. Winham ("Complexity in International Negotiation," in Daniel Druckman, ed., *Negotiations: A Social-Psychological Perspective* [Beverly Hills: Sage, 1977], p. 363) observes, "complexity can strengthen the hand of a negotiator vis-à-vis the organization he represents."

51. Habeeb and Zartman, *Panama Canal Negotiations*.

52. Bailey, *Wilson and the Great Betrayal*.



assumption that the negotiations involve only one issue. Relaxing this assumption has powerful consequences for the play at both levels.<sup>53</sup> Various groups at Level II are likely to have quite different preferences on the several issues involved in a multi-issue negotiation. As a general rule, the group with the greatest interest in a specific issue is also likely to hold the most extreme position on that issue. In the Law of the Sea negotiations, for example, the Defense Department felt most strongly about sea-lanes, the Department of the Interior about sea-bed mining rights, and so on.<sup>54</sup> If each group is allowed to fix the Level I negotiating position for “its” issue, the resulting package is almost sure to be “non-negotiable” (that is, non-ratifiable in opposing capitals).<sup>55</sup>

Thus, the chief negotiator is faced with tradeoffs across different issues: how much to yield on mining rights in order to get sea-lane protection, how much to yield on citrus exports to get a better deal on beef, and so on. The implication of these tradeoffs for the respective win-sets can be analyzed in terms of iso-vote or “political indifference” curves. This technique is analogous to conventional indifference curve analysis, except that the operational measure is vote loss, not utility loss. Figure 2 provides an illustrative Edgeworth box analysis.<sup>56</sup> The most-preferred outcome for A (the outcome which wins unanimous approval from both the beef industry and the citrus industry) is the upper right-hand corner ( $A_M$ ), and each curve concave to point  $A_M$  represents the locus of all possible tradeoffs between the interests of ranchers and farmers, such that the net vote in favor of ratification at A’s Level II is constant. The bold contour  $A_1$ – $A_2$  represents the minimal vote necessary for ratification by A, and the wedge-shaped area northeast of  $A_1$ – $A_2$  represents A’s win-set. Similarly,  $B_1$ – $B_2$  represents the outcomes that are minimally ratifiable by B, and the lens-shaped area between  $A_1$ – $A_2$  and  $B_1$ – $B_2$  represents the set of feasible agreements. Although additional subtleties (such as the nature of the “contract curve”) might be extracted from this sort of analysis, the central point is simple: the possibility of package deals opens up a rich array of strategic alternatives for negotiators in a two-level game.

One kind of issue linkage is absolutely crucial to understanding how domestic and international politics can become entangled.<sup>57</sup> Suppose that a majority of constituents at Level II oppose a given policy (say, oil price

53. I am grateful to Ernst B. Haas and Robert O. Keohane for helpful advice on this point.

54. Ann L. Hollick, *U.S. Foreign Policy and the Law of the Sea* (Princeton: Princeton University Press, 1981), especially pp. 208–37, and James K. Sebenius, *Negotiating the Law of the Sea* (Cambridge, Mass.: Harvard University Press, 1984), especially pp. 74–78.

55. Raiffa, *Art and Science of Negotiation*, p. 175.

56. I am indebted to Lisa Martin and Kenneth Shepsle for suggesting this approach, although they are not responsible for my application of it. Note that this construction assumes that each issue, taken individually, is a “homogeneous” type, not a “heterogeneous” type. Constructing iso-vote curves for heterogeneous-type issues is more complicated.

57. I am grateful to Henry Brady for clarifying this point for me.

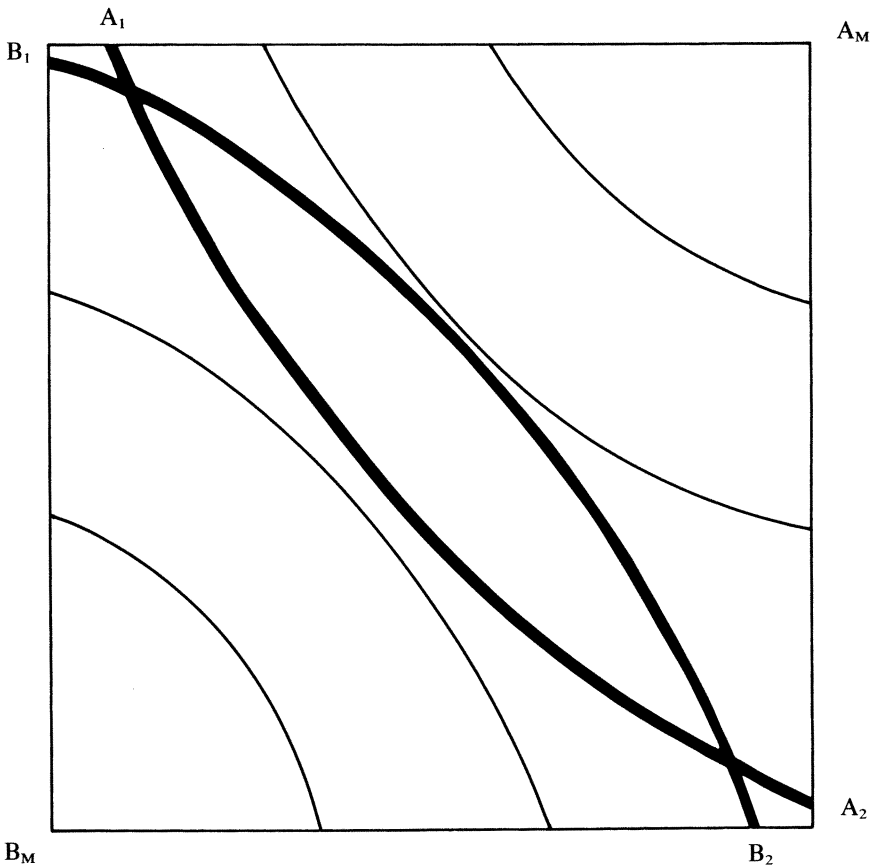


FIGURE 2. *Political indifference curves for two-issue negotiation*

decontrol), but that some members of that majority would be willing to switch their vote on that issue in return for more jobs (say, in export industries). If bargaining is limited to Level II, that tradeoff is not technically feasible, but if the chief negotiator can broker an international deal that delivers more jobs (say, via faster growth abroad), he can, in effect, overturn the initial outcome at the domestic table. Such a transnational issue linkage was a crucial element in the 1978 Bonn accord.

Note that this strategy works not by changing the preferences of any domestic constituents, but rather by creating a policy option (such as faster export growth) that was previously beyond domestic control. Hence, I refer to this type of issue linkage at Level I that alters the feasible outcomes at Level II as *synergistic linkage*. For example, “in the Tokyo Round . . . nations used negotiation to achieve internal reform in situations where constituency pressures would otherwise prevent action without the pressure

(and tradeoff benefits) that an external partner could provide.”<sup>58</sup> Economic interdependence multiplies the opportunities for altering domestic coalitions (and thus policy outcomes) by expanding the set of feasible alternatives in this way—in effect, creating political entanglements across national boundaries. Thus, we should expect synergistic linkage (which is, by definition, explicable only in terms of two-level analysis) to become more frequent as interdependence grows.

## *2. The size of the win-set depends on the Level II political institutions.*

Ratification procedures clearly affect the size of the win-set. For example, if a two-thirds vote is required for ratification, the win-set will almost certainly be smaller than if only a simple majority is required. As one experienced observer has written: “Under the Constitution, thirty-four of the one hundred senators can block ratification of any treaty. This is an unhappy and unique feature of our democracy. Because of the effective veto power of a small group, many worthy agreements have been rejected, and many treaties are never considered for ratification.”<sup>59</sup> As noted earlier, the U.S. separation of powers imposes a tighter constraint on the American win-set than is true in many other countries. This increases the bargaining power of American negotiators, but it also reduces the scope for international cooperation. It raises the odds for involuntary defection and makes potential partners warier about dealing with the Americans.

The Trade Expansion Act of 1974 modified U.S. ratification procedures in an effort to reduce the likelihood of congressional tampering with the final deal and hence to reassure America’s negotiating partners. After the American Selling Price fiasco, it was widely recognized that piecemeal congressional ratification of any new agreement would inhibit international negotiation. Hence, the 1974 Act guaranteed a straight up-or-down vote in Congress. However, to satisfy congressional sensitivities, an elaborate system of private-sector committees was established to improve communication between the Level I negotiators and their Level II constituents, in effect coopting the interest groups by exposing them directly to the implications of their demands.<sup>60</sup> Precisely this tactic is described in the labor-management case by Walton and McKersie: “Instead of taking responsibility for directly persuading the principals [Level II constituents] to reduce their expectations, [the Level I negotiator] structures the situation so that they (or their more immediate representatives) will persuade themselves.”<sup>61</sup>

58. Gilbert R. Winham, “The Relevance of Clausewitz to a Theory of International Negotiation,” prepared for delivery at the 1987 annual meeting of the American Political Science Association.

59. Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), p. 225.

60. Winham (see note 37); Twiggs, *The Tokyo Round*.

61. Walton and McKersie, *Behavioral Theory of Labor Organizations*, p. 321.

Not all significant ratification practices are formalized; for example, the Japanese propensity for seeking the broadest possible domestic consensus before acting constricts the Japanese win-set, as contrasted with majoritarian political cultures. Other domestic political practices, too, can affect the size of the win-set. Strong discipline within the governing party, for example, increases the win-set by widening the range of agreements for which the Level I negotiator can expect to receive backing. For example, in the 1986 House-Senate conference committee on tax reform, the final bill was closer to the Senate version, despite (or rather, *because of*) Congressman Rostenkowski's greater control of his delegation, which increased the House win-set. Conversely, a weakening of party discipline across the major Western nations would, *ceteris paribus*, reduce the scope for international cooperation.

The recent discussion of "state strength" and "state autonomy" is relevant here. The greater the autonomy of central decision-makers from their Level II constituents, the larger their win-set and thus the greater the likelihood of achieving international agreement. For example, central bank insulation from domestic political pressures in effect increases the win-set and thus the odds for international monetary cooperation; recent proposals for an enhanced role for central bankers in international policy coordination rest on this point.<sup>62</sup> However, two-level analysis also implies that, *ceteris paribus*, the stronger a state is in terms of autonomy from domestic pressures, the weaker its relative bargaining position internationally. For example, diplomats representing an entrenched dictatorship are less able than representatives of a democracy to claim credibly that domestic pressures preclude some disadvantageous deal.<sup>63</sup> This is yet another facet of the disconcerting ambiguity of the notion of "state strength."

For simplicity of exposition, my argument is phrased throughout in terms of only two levels. However, many institutional arrangements require several levels of ratification, thus multiplying the complexity (but perhaps also the importance) of win-set analysis. Consider, for example, negotiations between the United States and the European Community over agricultural trade. According to the Treaty of Rome, modifications of the Common Agricultural Policy require unanimous ratification by the Council of Ministers, representing each of the member states. In turn, each of those governments must, in effect, win ratification for its decision within its own national arena, and in coalition governments, that process might also require ratification within each of the parties. Similarly, on the American side, ratification would (informally, at least) necessitate support from most, if not all, of the major agricultural organizations, and within those organizations, further ratification by key interests and regions might be required. At each stage, cleavage patterns, issue linkages, ratification procedures, side-payments, negotiator

62. Artis and Ostry, *International Economic Policy Coordination*. Of course, whether this is desirable in terms of democratic values is quite another matter.

63. Schelling, *Strategy of Conflict*, p. 28.

strategies, and so on would need to be considered. At some point in this analytic regress the complexity of further decomposition would outweigh the advantages, but the example illustrates the need for careful thought about the logic of multiple-level games.

*3. The size of the win-set depends on the strategies of the Level I negotiators.*

Each Level I negotiator has an unequivocal interest in maximizing the other side's win-set, but with respect to his own win-set, his motives are mixed. The larger his win-set, the more easily he can conclude an agreement, but also the weaker his bargaining position vis-à-vis the other negotiator. This fact often poses a tactical dilemma. For example, one effective way to demonstrate commitment to a given position in Level I bargaining is to rally support from one's constituents (for example, holding a strike vote, talking about a "missile gap," or denouncing "unfair trading practices" abroad). On the other hand, such tactics may have irreversible effects on constituents' attitudes, hampering subsequent ratification of a compromise agreement.<sup>64</sup> Conversely, preliminary consultations at home, aimed at "softening up" one's constituents in anticipation of a ratification struggle, can undercut a negotiator's ability to project an implacable image abroad.

Nevertheless, disregarding these dilemmas for the moment and assuming that a negotiator wishes to expand his win-set in order to encourage ratification of an agreement, he may exploit both conventional side-payments and generic "good will." The use of side-payments to attract marginal supporters is, of course, quite familiar in game theory, as well as in practical politics. For example, the Carter White House offered many inducements (such as public works projects) to help persuade wavering Senators to ratify the Panama Canal Treaty.<sup>65</sup> In a two-level game the side-payments may come from unrelated domestic sources, as in this case, or they may be received as part of the international negotiation.

The role of side-payments in international negotiations is well known. However, the two-level approach emphasizes that the value of an international side-payment should be calculated in terms of its marginal contribution to the likelihood of ratification, rather than in terms of its overall value to the recipient nation. What counts at Level II is not total national costs and benefits, but their *incidence, relative to existing coalitions and proto-coalitions*. An across-the-board trade concession (or still worse, a concession on a product of interest to a committed free-trade congressman) is less effective than a concession (even one of lesser intrinsic value) that tips the balance with a swing voter. Conversely, trade retaliation should be targeted,

64. Walton and McKersie, *Behavioral Theory of Labor Organizations*, p. 345.

65. Carter, *Keeping Faith*, p. 172. See also Raiffa, *Art and Science of Negotiation*, p. 183.

neither at free-traders nor at confirmed protectionists, but at the uncommitted.

An experienced negotiator familiar with the respective domestic tables should be able to maximize the cost-effectiveness (to him and his constituents) of the concessions that he must make to ensure ratification abroad, as well as the cost-effectiveness of his own demands and threats, by targeting his initiatives with an eye to their Level II incidence, both at home and abroad. In this endeavor Level I negotiators are often in collusion, since each has an interest in helping the other to get the final deal ratified. In effect, they are moving jointly towards points of tangency between their respective political indifference curves. The empirical frequency of such targeting in trade negotiations and trade wars, as well as in other international negotiations, would be a crucial test of the relative merits of conventional unitary-actor analysis and the two-level approach proposed here.<sup>66</sup>

In addition to the use of specific side-payments, a chief negotiator whose political standing at home is high can more easily win ratification of his foreign initiatives. Although generic good will cannot guarantee ratification, as Woodrow Wilson discovered, it is useful in expanding the win-set and thus fostering Level I agreement, for it constitutes a kind of "all-purpose glue" for his supporting coalition. Walton and McKersie cite members of the United Auto Workers who, speaking of their revered leader, Walter Reuther, said, "I don't understand or agree with this profit-sharing idea, but if the Red Head wants it, I will go along."<sup>67</sup> The Yugoslav negotiator in the Trieste dispute later discounted the difficulty of persuading irredentist Slovenes to accept the agreement, since "the government [i.e., Tito] can always influence public opinion if it wants to."<sup>68</sup>

Note that each Level I negotiator has a strong interest in the popularity of his opposite number, since Party A's popularity increases the size of his win-set, and thus increases both the odds of success and the relative bargaining leverage of Party B. Thus, negotiators should normally be expected to try to reinforce one another's standing with their respective constituents.

66. The strategic significance of targeting at Level II is illustrated in John Conybeare, "Trade Wars: A Comparative Study of Anglo-Hanse, Franco-Italian, and Hawley-Smoot Conflicts," *World Politics* 38 (October 1985), p. 157: Retaliation in the Anglo-Hanse trade wars did not have the intended deterrent effect, because it was not (and perhaps could not have been) targeted at the crucial members of the opposing Level II coalition. Compare Snyder and Diesing, *Conflict Among Nations*, p. 552: "If one faces a coercive opponent, but the opponent's majority coalition includes a few wavering members inclined to compromise, a compromise proposal that suits their views may cause their defection and the formation of a different majority coalition. Or if the opponent's strategy is accommodative, based on a tenuous soft-line coalition, one knows that care is required in implementing one's own coercive strategy to avoid the opposite kind of shift in the other state."

67. Walton and McKersie, *Behavioral Theory of Labor Negotiations*, p. 319.

68. Vladimir Velebit, in Campbell, *Trieste 1954*, p. 97. As noted earlier, our discussion here assumes that the Level I negotiator wishes to reach a ratifiable agreement; in cases (alluded to later) when the negotiator's own preferences are more hard-line than his constituents, his domestic popularity might allow him to resist Level I agreements.



Partly for this reason and partly because of media attention, participation on the world stage normally gives a head of government a special advantage vis-à-vis his or her domestic opposition. Thus, although international policy coordination is hampered by high transaction costs, heads of government may also reap what we might term “transaction benefits.” Indeed, the recent evolution of Western summitry, which has placed greater emphasis on publicity than on substance, seems designed to appropriate these “transaction benefits” without actually seeking the sort of agreements that might entail transaction costs.<sup>69</sup>

Higher status negotiators are likely to dispose of more side-payments and more “good will” at home, and hence foreigners prefer to negotiate with a head of government than with a lower official. In purely distributive terms, a nation might have a bargaining advantage if its chief negotiator were a mere clerk. Diplomats are acting rationally, not merely symbolically, when they refuse to negotiate with a counterpart of inferior rank. America’s negotiating partners have reason for concern whenever the American president is domestically weakened.

### **Uncertainty and bargaining tactics**

Level I negotiators are often badly misinformed about Level II politics, particularly on the opposing side. In 1978, the Bonn negotiators were usually wrong in their assessments of domestic politics abroad; for example, most American officials did not appreciate the complex domestic game that Chancellor Schmidt was playing over the issue of German reflation. Similarly, Snyder and Diesing report that “decision makers in our cases only occasionally attempted such assessments, and when they tried they did pretty miserably. . . . Governments generally do not do well in analyzing each other’s internal politics in crises [and, I would add, in normal times], and indeed it is inherently difficult.”<sup>70</sup> Relaxing the assumption of perfect information to allow for uncertainty has many implications for our understanding of two-level games. Let me illustrate a few of these implications.

Uncertainty about the size of a win-set can be both a bargaining device and a stumbling block in two-level negotiation. In purely distributive Level I bargaining, negotiators have an incentive to understate their own win-sets. Since each negotiator is likely to know more about his own Level II than his opponent does, the claim has some plausibility. This is akin to a tactic

69. Transaction benefits may be enhanced if a substantive agreement is reached, although sometimes leaders can benefit domestically by loudly rejecting a proffered international deal.

70. Snyder and Diesing, *Conflict Among Nations*, pp. 516, 522–23. Analogous misperceptions in Anglo-American diplomacy are the focus of Richard E. Neustadt, *Alliance Politics* (New York: Columbia University Press, 1970).

that Snyder and Diesing describe, when negotiators seek to exploit divisions within their own government by saying, in effect, “You’d better make a deal with me, because the alternative to me is even worse.”<sup>71</sup>

On the other hand, uncertainty about the opponent’s win-set increases one’s concern about the risk of involuntary defection. Deals can only be struck if each negotiator is convinced that the proposed deal lies within his opposite number’s win-set and thus will be ratified. Uncertainty about party A’s ratification lowers the expected value of the agreement to party B, and thus party B will demand more generous side-payments from party A than would be needed under conditions of certainty. In fact, party B has an incentive to feign doubt about party A’s ability to deliver, precisely in order to extract a more generous offer.<sup>72</sup>

Thus, a utility-maximizing negotiator must seek to convince his opposite number that his own win-set is “kinky,” that is, that the proposed deal is certain to be ratified, but that a deal slightly more favorable to the opponent is unlikely to be ratified. For example, on the energy issue in 1978, by sending Senator Byrd on a personal mission to Bonn before the summit and then by discussing his political problems in a length tête-à-tête with the chancellor, Carter sought successfully to convince Schmidt that immediate decontrol was politically impossible, but that decontrol by 1981 was politically doable. Kinky win-sets may be more credible if they pivot on what Schelling calls a “prominent” solution, such as a 50–50 split, for such outcomes may be distinctly more “saleable” at home. Another relevant tactic is for the negotiator actually to submit a trial agreement for ratification, in order to demonstrate that it is not in his win-set.

Uncertainty about the contours of the respective “political indifference curves” thus has strategic uses. On the other hand, when the negotiators are seeking novel packages that might improve both sides’ positions, misrepresentation of one’s win-set can be counterproductive. Creative solutions that expand the scope for joint gain and improve the odds of ratification are likely to require fairly accurate information about constituents’ preferences and points of special neuralgia. The analysis of two-level games offers many illustrations of Zartman’s observation that all negotiation involves “the controlled exchange of partial information.”<sup>73</sup>

71. Snyder and Diesing, *Conflict Among Nations*, p. 517.

72. I am grateful to Robert O. Keohane for pointing out the impact of uncertainty on the expected value of proposals.

73. I. William Zartman, *The 50% Solution* (Garden City, N.J.: Anchor Books, 1976), p. 14. The present analysis assumes that constituents are myopic about the other side’s Level II, an assumption that is not unrealistic empirically. However, a fully informed constituent would consider the preferences of key players on the other side, for if the current proposal lies well within the other side’s win-set, then it would be rational for the constituent to vote against it, hoping for a second-round proposal that was more favorable to him and still ratifiable abroad; this might be a reasonable interpretation of Senator Lodge’s position in 1919 (Bailey, *Wilson and the Great Betrayal*). Consideration of such strategic voting at Level II is beyond the scope of this article.

## Restructuring and reverberation

Formally speaking, game-theoretic analysis requires that the structure of issues and payoffs be specified in advance. In reality, however, much of what happens in any bargaining situation involves attempts by the players to restructure the game and to alter one another's perceptions of the costs of no-agreement and the benefits of proposed agreements. Such tactics are more difficult in two-level games than in conventional negotiations, because it is harder to reach constituents on the other side with persuasive messages. Nevertheless, governments do seek to expand one another's win-sets. Much ambassadorial activity—wooing opinion leaders, establishing contact with opposition parties, offering foreign aid to a friendly, but unstable government, and so on—has precisely this function. When Japanese officials visit Capitol Hill, or British diplomats lobby Irish-American leaders, they are seeking to relax domestic constraints that might otherwise prevent the administration from cooperating with their governments.

Another illuminating example of actions by a negotiator at the opposing Level II to improve the odds of ratification occurred during the 1977 negotiations between the International Monetary Fund and the Italian government. Initial IMF demands for austerity triggered strong opposition from the unions and left-wing parties. Although the IMF's bargaining position at Level I appeared strong, the Fund's negotiator sought to achieve a broader consensus within Italy in support of an agreement, in order to forestall involuntary defection. Accordingly, after direct consultations with the unions and leftist leaders, the IMF restructured its proposal to focus on long-term investment and economic recovery (incidentally, an interesting example of targeting), without backing off from its short-term demands. Ironically, the initial Communist support for this revised agreement subsequently collapsed because of conflicts between moderate and doctrinaire factions within the party, illustrating the importance of multilevel analysis.<sup>74</sup>

In some instances, perhaps even unintentionally, international pressures “reverberate” within domestic politics, tipping the domestic balance and thus influencing the international negotiations. Exactly this kind of reverberation characterized the 1978 summit negotiations. Dieter Hiss, the German sherpa and one of those who believed that a stimulus program was in Germany's own interest, later wrote that summits change national policy

only insofar as they mobilize and/or change public opinion and the attitude of political groups. . . . Often that is enough, if the balance of

74. John R. Hillman, “The Mutual Influence of Italian Domestic Politics and the International Monetary Fund,” *The Fletcher Forum* 4 (Winter 1980), pp. 1–22. Luigi Spaventa, “Two Letters of Intent: External Crises and Stabilization Policy, Italy, 1973–77,” in John Williamson, ed., *IMF Conditionality* (Washington, D.C.: Institute for International Economics, 1983), pp. 441–73, argues that the unions and the Communists actually favored the austerity measures, but found the IMF demands helpful in dealing with their own internal Level II constituents.

opinion is shifted, providing a bare majority for the previously stymied actions of a strong minority. . . . No country violates its own interests, but certainly the definition of its interests can change through a summit with its possible tradeoffs and give-and-take.<sup>75</sup>

From the point of view of orthodox social-choice theory, reverberation is problematic, for it implies a certain interconnectedness among the utility functions of independent actors, albeit across different levels of the game. Two rationales may be offered to explain reverberation among utility-maximizing egoists. First, in a complex, interdependent, but often unfriendly world, offending foreigners may be costly in the long run. "To get along, go along" may be a rational maxim. This rationale is likely to be more common the more dependent (or interdependent) a nation, and it is likely to be more persuasive to Level II actors who are more exposed internationally, such as multinational corporations and international banks.

A second rationale takes into account cognitive factors and uncertainty. It would be a mistake for political scientists to mimic most economists' disregard for the suasive element in negotiations.<sup>76</sup> Given the pervasive uncertainty that surrounds many international issues, messages from abroad can change minds, move the undecided, and hearten those in the domestic minority. As one reluctant German latecomer to the "locomotive" cause in 1978 explained his conversion, "In the end, even the Bank for International Settlements [the cautious Basle organization of central bankers] supported the idea of coordinated relation." Similarly, an enthusiastic advocate of the program welcomed the international pressure as providing a useful "tail-wind" in German domestic politics.

Suasive reverberation is more likely among countries with close relations and is probably more frequent in economic than in political-military negotiations. Communiqués from the Western summits are often cited by participants to domestic audiences as a way of legitimizing their policies. After one such statement by Chancellor Schmidt, one of his aides privately characterized the argument as "not intellectually valid, but politically useful." Conversely, it is widely believed by summit participants that a declaration contrary to a government's current policy could be used profitably by its opponents. Recent congressional proposals to ensure greater domestic publicity for international commentary on national economic policies (including hitherto confidential IMF recommendations) turn on the idea that reverberation might increase international cooperation.<sup>77</sup>

75. Dieter Hiss, "Weltwirtschaftsgipfel: Betrachtungen eines Insiders [World Economic Summit: Observations of an Insider]," in Joachim Frohn and Reiner Staeglin, eds., *Empirische Wirtschaftsforschung* (Berlin: Duncker and Humblot, 1980), pp. 286–87.

76. On cognitive and communications explanations of international cooperation, see, for example, Ernst B. Haas, "Why Collaborate? Issue-Linkage and International Regimes," *World Politics* 32 (April 1980), pp 357–405; Richard N. Cooper, "International Cooperation in Public Health as a Prologue to Macroeconomic Cooperation," *Brookings Discussion Papers in International Economics* 44 (Washington, D.C.: Brookings Institution, 1986); and Zartman, *50% Solution*, especially Part 4.

77. Henning, *Macroeconomic Diplomacy in the 1980s*, pp. 62–63.

Reverberation as discussed thus far implies that international pressure expands the domestic win-set and facilitates agreement. However, reverberation can also be negative, in the sense that foreign pressure may create a domestic backlash. Negative reverberation is probably less common empirically than positive reverberation, simply because foreigners are likely to forgo public pressure if it is recognized to be counterproductive. Cognitive balance theory suggests that international pressure is more likely to reverberate negatively if its source is generally viewed by domestic audiences as an adversary rather than an ally. Nevertheless, predicting the precise effect of foreign pressure is admittedly difficult, although empirically, reverberation seems to occur frequently in two-level games.

The phenomenon of reverberation (along with synergistic issue linkage of the sort described earlier) precludes one attractive short-cut to modeling two-level games. If national preferences were exogenous from the point of view of international relations, then the domestic political game could be molded separately, and the “outputs” from that game could be used as the “inputs” to the international game.<sup>78</sup> The division of labor between comparative politics and international relations could continue, though a few curious observers might wish to keep track of the play on both tables. But if international pressures reverberate within domestic politics, or if issues can be linked synergistically, then domestic outcomes are not exogenous, and the two levels cannot be modeled independently.

### The role of the chief negotiator

In the stylized model of two-level negotiations outlined here, the chief negotiator is the only formal link between Level I and Level II. Thus far, I have assumed that the chief negotiator has no independent policy views, but acts merely as an honest broker, or rather as an agent on behalf of his constituents. That assumption powerfully simplifies the analysis of two-level games. However, as principal-agent theory reminds us, this assumption is unrealistic.<sup>79</sup> Empirically, the preferences of the chief negotiator may well diverge from those of his constituents. Two-level negotiations are costly and

78. This is the approach used to analyze the Anglo–Chinese negotiations over Hong Kong in Bruce Bueno de Mesquita, David Newman, and Alvin Rabushka, *Forecasting Political Events: The Future of Hong Kong* (New Haven: Yale University Press, 1985).

79. For overviews of this literature, see Terry M. Moe, “The New Economics of Organization,” *American Journal of Political Science* 28 (November 1984), pp. 739–77; John W. Pratt and Richard J. Zeckhauser, eds., *Principals and Agents: The Structure of Business* (Boston, Mass.: Harvard Business School Press, 1985); and Barry M. Mitnick, “The Theory of Agency and Organizational Analysis,” prepared for delivery at the 1986 annual meeting of the American Political Science Association. This literature is only indirectly relevant to our concerns here, for it has not yet adequately addressed the problems posed by multiple principals (or constituents, in our terms). For one highly formal approach to the problem of multiple principals, see R. Douglas Bernheim and Michael D. Whinston, “Common Agency,” *Econometrica* 54 (July 1986), pp. 923–42.



risky for the chief negotiator, and they often interfere with his other priorities, so it is reasonable to ask what is in it for him.

The motives of the chief negotiator include:

1. Enhancing his standing in the Level II game by increasing his political resources or by minimizing potential losses. For example, a head of government may seek the popularity that he expects to accrue to him if he concludes a successful international agreement, or he may anticipate that the results of the agreement (for example, faster growth or lower defense spending) will be politically rewarding.
2. Shifting the balance of power at Level II in favor of domestic policies that he prefers for exogenous reasons. International negotiations sometimes enable government leaders to do what they privately wish to do, but are powerless to do domestically. Beyond the now-familiar 1978 case, this pattern characterizes many stabilization programs that are (misleadingly) said to be "imposed" by the IMF. For example, in the 1974 and 1977 negotiations between Italy and the IMF, domestic conservative forces exploited IMF pressure to facilitate policy moves that were otherwise infeasible internally.<sup>80</sup>
3. To pursue his own conception of the national interest in the international context. This seems the best explanation of Jimmy Carter's prodigious efforts on behalf of the Panama Canal Treaty, as well as of Woodrow Wilson's ultimately fatal commitment to the Versailles Treaty.

It is reasonable to presume, at least in the international case of two-level bargaining, that the chief negotiator will normally give primacy to his domestic calculus, if a choice must be made, not least because his own incumbency often depends on his standing at Level II. Hence, he is more likely to present an international agreement for ratification, the less of his own political capital he expects to have to invest to win approval, and the greater the likely political returns from a ratified agreement.

This expanded conception of the role of the chief negotiator implies that he has, in effect, a veto over possible agreements. Even if a proposed deal lies within his Level II win-set, that deal is unlikely to be struck if he opposes it.<sup>81</sup> Since this proviso applies on both sides of the Level I table, the actual international bargaining set may be narrower—perhaps much narrower—than the overlap between the Level II win-sets. Empirically, this additional constraint is often crucial to the outcome of two-level games. One momentous example is the fate of the Versailles Treaty. The best evidence suggests, first, that perhaps 80 percent of the American public *and* of the Senate in 1919 favored ratification of the treaty, if certain reservations were attached, and second, that those reservations were acceptable to the other key sig-

80. Hillman, "Mutual Influence," and Spaventa, "Two Letters of Intent."

81. This power of the chief negotiator is analogous to what Shepsle and Weingast term the "penultimate" or "ex post veto" power of the members of a Senate-House conference committee. (Shepsle and Weingast, "Institutional Foundations of Committee Power.")



natories, especially Britain and France. In effect, it was Wilson himself who vetoed this otherwise ratifiable package, telling the dismayed French Ambassador, "I shall consent to nothing."<sup>82</sup>

Yet another constraint on successful two-level negotiation derives from the leader's existing domestic coalition. Any political entrepreneur has a fixed investment in a particular pattern of policy positions and a particular supporting coalition. If a proposed international deal threatens that investment, or if ratification would require him to construct a different coalition, the chief negotiator will be reluctant to endorse it, even if (judged abstractly) it could be ratified. Politicians may be willing to risk a few of their normal supporters in the cause of ratifying an international agreement, but the greater the potential loss, the greater their reluctance.

In effect, the fixed costs of coalition-building thus imply this constraint on the win-set: How great a realignment of prevailing coalitions at Level II would be required to ratify a particular proposal? For example, a trade deal may expand export opportunities for Silicon Valley, but harm Aliquippa. This is fine for a chief negotiator (for example, Reagan?) who can easily add Northern California yuppies to his support coalition and who has no hope of winning Aliquippa steelworkers anyhow. But a different chief negotiator with a different support coalition (for example, Mondale?) might find it costly or even impossible to convert the gains from the same agreement into politically usable form. Similarly, in the 1978 "neutron bomb" negotiations between Bonn and Washington, "asking the United States to deploy [these weapons] in West Germany might have been possible for a Christian Democratic Government; for a Social Democratic government, it was nearly impossible."<sup>83</sup> Under such circumstances, simple "median-voter" models of domestic influences on foreign policy may be quite misleading.

Relaxing the assumption that the chief negotiator is merely an honest broker, negotiating on behalf of his constituents, opens the possibility that the constituents may be more eager for an agreement (or more worried about "no-agreement") than he is. Empirical instances are not hard to find: in early 1987, European publics were readier to accept Gorbachev's "double-zero" arms control proposal than European leaders, just as in the early 1970s the American public (or at least the politically active public) was more eager for a negotiated end to the Vietnam War than was the Nixon administration. As a rule, the negotiator retains a veto over any proposed agreement in such cases. However, if the negotiator's own domestic standing (or indeed, his incumbency) would be threatened if he were to reject an agreement that falls within his Level II win-set, and if this is known to all parties, then the other side at Level I gains considerable leverage. Domestic U.S. discontent about

82. Bailey, *Wilson and the Great Betrayal*, quotation at p. 15.

83. Robert A. Strong and Marshal Zeringue, "The Neutron Bomb and the Atlantic Alliance," presented at the 1986 annual meeting of the American Political Science Association, p. 9.

the Vietnam War clearly affected the agreement reached at the Paris talks.<sup>84</sup> Conversely, if the constituents are (believed to be) hard-line, then a leader's domestic weakness becomes a diplomatic asset. In 1977, for example, the Americans calculated that "a delay in negotiating a treaty . . . endangered [Panamanian President Omar] Torrijos' position; and Panama without Torrijos most likely would have been an impossible negotiating partner."<sup>85</sup> Similarly, in the 1954 Trieste negotiations, the weak Italian government claimed that "'Unless something is done in our favor in Trieste, we can lose the election.' That card was played two or three times [reported the British negotiator later], and it almost always took a trick."<sup>86</sup>

My emphasis on the special responsibility of central executives is a point of affinity between the two-level game model and the "state-centric" literature, even though the underlying logic is different. In this "Janus" model of domestic-international interactions, transnational politics are less prominent than in some theories of interdependence.<sup>87</sup> However, to disregard "cross-table" alliances at Level II is a considerable simplification, and it is more misleading, the lower the political visibility of the issue, and the more frequent the negotiations between the governments involved.<sup>88</sup> Empirically, for example, two-level games in the European Community are influenced by many direct ties among Level II participants, such as national agricultural spokesmen. In some cases, the same multinational actor may actually appear at more than one Level II table. In negotiations over mining concessions in some less-developed countries, for example, the same multinational corporation may be consulted privately by both the home and host governments. In subsequent work on the two-level model, the strategic implications of direct communication between Level II players should be explored.

## Conclusion

The most portentous development in the fields of comparative politics and international relations in recent years is the dawning recognition among practitioners in each field of the need to take into account entanglements between the two. Empirical illustrations of reciprocal influence between domestic and international affairs abound. What we need now are concepts

84. I. William Zartman, "Reality, Image, and Detail: The Paris Negotiations, 1969–1973," in Zartman, *50% Solution*, pp. 372–98.

85. Zbigniew Brzezinski, *Power and Principle* (New York: Farrar, Straus and Giroux, 1983), p. 136, as quoted in Habeeb and Zartman, *Panama Canal Negotiations*, pp. 39–40.

86. Harrison in Campbell, *Trieste 1954*, p. 67.

87. Samuel P. Huntington, "Transnational Organizations in World Politics," *World Politics* 25 (April 1973), pp. 333–68; Keohane and Nye, *Power and Interdependence*; Neustadt, *Alliance Politics*.

88. Barbara Crane, "Policy Coordination by Major Western Powers in Bargaining with the Third World: Debt Relief and the Common Fund," *International Organization* 38 (Summer 1984), pp. 399–428.

and theories that will help us organize and extend our empirical observations.

Analysis in terms of two-level games offers a promising response to this challenge. Unlike state-centric theories, the two-level approach recognizes the inevitability of domestic conflict about what the “national interest” requires. Unlike the “Second Image” or the “Second Image Reversed,” the two-level approach recognizes that central decision-makers strive to reconcile domestic and international imperatives simultaneously. As we have seen, statesmen in this predicament face distinctive strategic opportunities and strategic dilemmas.

This theoretical approach highlights several significant features of the links between diplomacy and domestic politics, including:

- the important distinction between voluntary and involuntary defection from international agreements;
- the contrast between issues on which domestic interests are homogeneous, simply pitting hawks against doves, and issues on which domestic interests are more heterogeneous, so that domestic cleavage may actually foster international cooperation;
- the possibility of synergistic issue linkage, in which strategic moves at one game-table facilitate unexpected coalitions at the second table;
- the paradoxical fact that institutional arrangements which strengthen decision-makers at home may weaken their international bargaining position, and vice versa;
- the importance of targeting international threats, offers, and side-payments with an eye towards their domestic incidence at home and abroad;
- the strategic uses of uncertainty about domestic politics, and the special utility of “kinky win-sets”;
- the potential reverberation of international pressures within the domestic arena;
- the divergences of interest between a national leader and those on whose behalf he is negotiating, and in particular, the international implications of his fixed investments in domestic politics.

Two-level games seem a ubiquitous feature of social life, from Western economic summitry to diplomacy in the Balkans and from coalition politics in Sri Lanka to legislative maneuvering on Capitol Hill. Far-ranging empirical research is needed now to test and deepen our understanding of how such games are played.