

The Dark Side of Democratic Advantage: International Crises and Secret Agreements

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Abstract

We explore the motivations of leaders to resolve international crises through the use of secret agreements. In particular, we examine agreements that can have both public and secret outcomes. The formal bargaining model illustrates that leaders who value public outcomes, such as democratically elected officials, face incentives to secure a public victory at the cost of private concessions to the adversary. Conversely, leaders who care little about public outcomes, such as personalist dictators, have incentives to demand private concessions in return for publicly backing down. The theory contributes to explaining important empirical puzzles, including democratic and autocratic peace and the tendency of democracies to seemingly win international disputes. Case studies, including the Cuban Missile Crisis, and quantitative evidence lend support to the theory.

1 Introduction

Secret diplomacy is often associated with a forgone era of Bismarckian intrigue. After Versailles, secret agreements were thoroughly condemned for engendering mistrust and antagonism among the great powers and contributing to the Great War.¹ In his Fourteen Points speech, Woodrow Wilson emphasized that “It will be our wish and purpose that the processes of peace, when they are begun, shall be absolutely open and that they shall involve and permit henceforth no secret understandings of any kind” (Wilson 1918). Secret dealings were discouraged by Article 18 of the League of Nations Covenant and Article 102 of the United Nations (UN) Charter, which tied the legality of international agreements to a public registration process (Lipson 1991: 537).

While such institutional innovations have apparently eliminated formal secret treaties among the great powers, private understandings and informal agreements remain a ubiquitous feature of contemporary international bargaining (Lipson 1991). Such arrangements vary widely in their degree of secrecy. Some agreements are intended to be secret and remain so – the negotiations for normalizing relations between Japan and South Korea contained secret understandings that were not publicly released until forty years after the treaty came into force.² Other quid pro quos are officially denied but nearly transparent – during their campaign to obtain permanent seats on the UN Security Council, diplomats from Germany and Japan showered offers of economic aid to a host of smaller countries, prompting a critical Pakistani Ambassador to state that the lobbying efforts would be “judged as unethical or worse” if they were part of a domestic election (*Bloomberg* 2005). South Korea pursued similar policies to secure support for Ban Ki Moon as the Secretary General of the UN, offering inducements ranging “...from tens of millions of pounds of extra funding for African countries to lucrative trade agreements in Europe — and even the gift of a grand piano to Peru” (*The Times* 2006). A Japanese Fisheries Agency official faced criticism for being unusually blunt about his government’s use of checkbook diplomacy to secure the support of poor member states to overturn a whaling ban in the International Whaling Commission (IWC)

¹ See, for example, the extensive critique in Reinsch (1922).

² See Section 1.6.

(*The Seattle Post-Intelligencer* 2001). Recent quantitative evidence also suggests that the US privately secures support from non-permanent members of the UN Security council by leveraging its foreign aid budget and UNICEF aid (Kuziemko and Werker 2006), as well as IMF lending (Dreher et al. 2006).

Despite the prevalence of private agreements in international diplomacy, their potential consequences have received surprisingly little attention in the international bargaining literature.³ Existing formal models of crisis bargaining generally assume all outcomes are public. While some international agreements may produce only public outcomes, we posit that virtually all diplomatic negotiations occurs under conditions in which some types of private deals are possible. It is, therefore, useful to think about the generalizable implications of private agreements on international diplomacy, in terms of both observable and unobserved outcomes.

This paper contributes to the rich literature that explores the links between domestic institutions and international crisis bargaining. Two important strands of this literature, the selectorate theory (Buono de Mesquita et al. 1999) and the audience costs literature (Fearon 1994; Schultz 1998, 1999; Smith 1998), suggest that leaders of democracies are more likely to place value on the public outcome of international bargaining than their autocratic counterparts.⁴ This asymmetry gives leaders of democracies a bargaining advantage by enabling more credible commitment to stand firm in negotiations and incentivizing leaders to try harder to come out on top.

However, we argue that when private agreements are feasible, the same pursuit of public victory gives leaders of democracies incentives to secure public victories by making secret concessions to their bargaining counterparts. Furthermore, these incentives are particularly strong when facing non-democratic opponents. This trade in concessions gives democratic leaders a public outcome pleasing to

³ Some existing work addresses the causes of contemporary private diplomacy. Among others, these may include flexibility and expediency, scope-limitation, the desire to avoid setting a precedent (Lipson 1991), and the unintended consequences or potential costs of a public disappointment associated with elevated audience costs (Baum 2004, Kurizaki 2007, Leventoglu and Tarar 2005).

⁴ By “public” outcomes we mean those that can be observed by all international and domestic audiences of the states involved. By “private” outcomes, we mean those that, at least at the time when the agreement is made, are only known to the leaders and policy-making elites.

their constituency, but it may represent a less favorable outcome for the democratic state as a whole when the secret concessions are factored in. This insight has a variety of both observable and unobservable (but important) implications, which we will discuss in subsequent sections.

This paper will proceed as follows. Section 2 discusses the theoretical motivations behind our claims. Section 3 presents a basic formal model. The solution to, and testable implication from, the model are presented in Section 4. A discussion of further implications follows in Section 5. We examine historical and quantitative evidence in Section 6. Section 7 concludes with a discussion of policy implications and the more general applicability of our theory.

2 Casuistry, Domestic Institutions, and Crisis Bargaining

One of Thomas Schelling's much studied insights is that tying hands is an effective way of establishing credible commitment (Schelling 1960, 1966). If leaders take actions that increase the costs of backing down from their positions, for example by engaging their domestic audiences, they can increase their bargaining power. Less studied are Schelling's writings on casuistry, in which he identifies the important distinction between real bargaining outcomes and the public presentation of those outcomes. For Schelling, casuistry is reframing of the bargaining outcome to make it more palatable for the losing party or the losing party's audience. In Schelling's own words, "[m]ore interesting is the use of casuistry to release an opponent from a commitment... if one can confuse the opponent's commitment, so that his constituents or principals or audience cannot exactly identify compliance with the commitment ... one may undo it or lower its value" (1960: 34). Importantly, it may be in the interest of both parties to reframe the public outcome. The loser gains by presenting the agreement in a favorable light and avoiding punishment by its audience. The winner gains by securing a more favorable bargaining outcome – an outcome that would have been impossible if the loser held strictly to its original commitment.

More generally, if public and private bargaining outcomes are separable, one can critically undermine the credibility of public commitments. For the purposes of this article, by "public" outcomes we mean those that can be observed by all international and domestic audiences of the states involved.

By “private” outcomes, we mean those that, at least at the time when the agreement is made, are only known to leaders and policy-making elites. Schelling describes a specific case, where a bargaining process resulting in asymmetrical gains for one state is presented publicly as a draw. However, the implications of the public-private separation are much broader. A public victory can be inherently valuable to leaders who can translate it into a higher probability of staying in office (e.g. Smith 1998). If public victory is valuable *ipso facto*, negotiators may use public outcomes as bargaining chips within the private bargaining process – i.e. a leader may demand greater private concessions in return for shifting the public outcome from a draw to an opponent victory. This dynamic may lead to a bargaining outcome, in which one state can claim victory while giving away real, private concessions to the opponent.

A state’s regime type is one of the most important factors affecting a leader’s valuation of public outcomes of international disputes. Yet, the bulk of the literature on the effects of domestic institutions on international relations assumes that crisis outcomes are public, thus ignoring the possibility of secret agreements. We will discuss the existing theories linking domestic institutions and international conflict and then explore how their predictions change once we incorporate the possibility of secret concessions.

The aforementioned theories arose to explain two important empirical puzzles: the democratic peace and the democratic advantage in crises and war. Two findings are particularly relevant for this paper. First, democracy-autocracy dyads are more likely than other dyads to experience militarized disputes, a finding that suggests the existence of not only democratic peace, but also autocratic peace (Peceny et.al. 2002, Reiter and Stam 2003).⁵ Second, in a dispute between an autocracy and a democracy, a democracy is less likely to back down (Partell and Palmer 1999, Schultz 1999).

Two classes of theories attribute these empirical findings, more or less explicitly, to the democratic leaders’ propensity to value public outcomes: the audience costs literature and the selectorate theory. The former emphasizes the value of engaging domestic audiences in establishing a stronger bargaining position (Fearon 1994, Schultz 1998, Smith 1998, Leventoglu and Tarar 2005). According to this literature, a leader can raise the costs of backing down by rallying domestic audiences who,

⁵ These findings are strongest when an autocracy is a personalist dictatorship.

concerned about leadership competence, would punish the leader who backs down from a previously issued challenge. This mechanism is akin to winning a game of chicken by throwing a steering wheel out of the window (Schelling 1966). Furthermore, under asymmetric information, the ability to generate audience costs helps signal resolve, since engaging one's audiences raises the costs of bluffing or initiating challenges which one is unable to defend (Fearon 1994). Again, this signaling property of audience costs is predicated on the ability to create credible commitment by tying your own hands (Slantchev 2006: 447). There is survey evidence that politically active publics do care about competence and reputation of their leaders, which establishes micro-foundations for the audience cost thesis (Tomz 2007).

Because democracies have institutional mechanisms for translating public discontent with a leader's performance into electoral outcomes, democratic leaders can suffer larger audience costs than dictators (Fearon 1994: 585). It follows then that democracies will have an edge in international crisis bargaining. It is important, if almost tautological, to note that audience costs can only be accrued if the domestic audience observes an unfavorable public outcome, which incentivizes democratic leaders to be particularly concerned with public outcomes.

The second theory, the selectorate theory, posits that leaders need to satisfy a winning coalition to stay in power (Bueno de Mesquita et al. 1999). Leaders with small winning coalitions (e.g. dictators) can satisfy their few supporters by distributing private goods among them. This is not an attractive option for leaders with larger winning coalitions (e.g. democratic leaders) who need to pursue public goods instead. Public goods, the theory argues, include successful foreign policy and, more specifically, victories in international disputes. Like the audience costs literature, therefore, the selectorate theory implies that democratic leaders will place higher value on the public outcomes of crises. We will continue our discussion of the links between our theory of secret agreements, the selectorate theory, and the audience costs literature in Section 5.

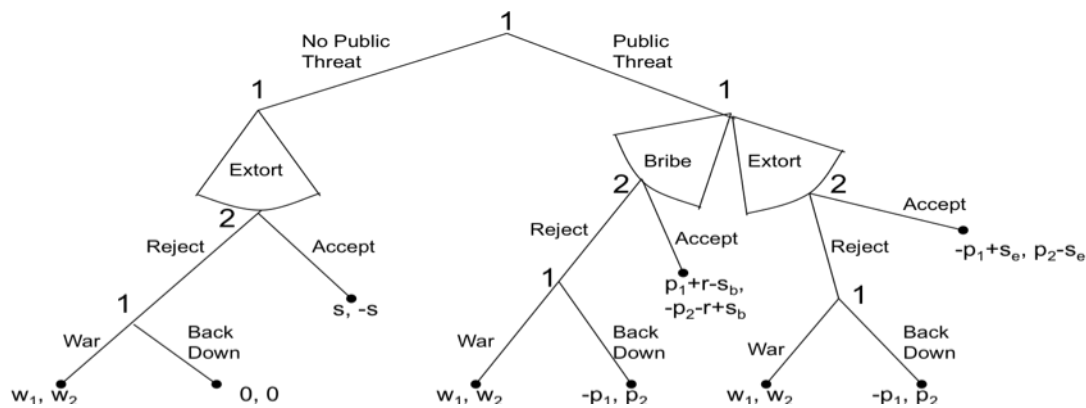
On closer examination of these theories, what matters to a leader is not whether she stands firm and wins an international dispute, but whether her relevant audience *thinks* that she did. This point

becomes crucial once we recognize that secret agreements are a potential option for resolving disputes. For leaders with high audience costs imposed by large winning coalitions, it is paramount to convince their audience that a negotiated outcome is favorable. For a dictator, on the other hand, the public nature of the victory constitutes nothing more than a matter of ego or prestige.

This illuminates a potential flaw in the existing literature attempting to explain democratic advantage. Democratic leaders may face perverse incentives to secure public victory (or at minimum, avoid public defeat) at the cost of real secret concessions to leaders who do not place a similarly high value on public outcomes. Because such deals are beneficial to the leaders involved, initiations of crises that are expected to lead to such deals are also beneficial. This dynamic, we argue, contributes to the observed propensity of democracies and autocracies to engage in conflict.

3 The Model

Figure 1: A Game with Public and Private Concessions



In Figure 1, we provide a simple formalization of our propositions. The model is based on the conventional crisis bargaining model in which a leader of state 1 (1 henceforth) chooses to threaten or not threaten state 2, a leader of state 2 (2 henceforth) chooses whether or not to capitulate, and 1 chooses between going to war and backing down in the event that 2 proves to be intransigent. We extend this basic model by allowing 1 to make both public and private threats and to couple public threats with

private offers. Although we follow the existing literature by modeling crisis bargaining, the insights generated by our model can be applied more broadly to any bargaining setting with comparable features, i.e. those in which Pareto-improving bargains can be struck and a war-like outside option is available. We will discuss this point further in the empirical section.

The variable definitions are as follows:

$p_i > 0$: utility associated with obtaining a public victory (loss)⁶

$r > 0$: value of the real asset in 2's possession, over which 1 publicly threatens 2⁷

w_i : expected payoff from going to war

$s, s_e, s_b > 0$: value of secret concessions, endogenously chosen by 1

To represent the possibility of agreements that are unknown to the general public, we explicitly separate the public and private components of the victory payoff. Introducing a payoff for public victory, p_i , is a simple way to represent the driving force behind theories that explain democratic advantage with democratic leaders' concern for public outcomes. This payoff should be conceptualized as a boost in the leader's probability of retaining office as a result of showing competence or appearing to provide a public good. With a negative sign, this payoff represents an audience cost to a leader for backing down publicly.

We model the strategic setting as an extended form game with complete information. The audience costs literature usually features models with incomplete information about war payoffs in order to illustrate the signaling value of audience costs. Our goal, however, is to question whether audience costs can reliably offer a credible commitment mechanism, on which their signaling value is predicated (Slantchev 2006: 447). A model with complete information is sufficient for this task.

The structure of the moves and the payoffs is as follows. 1 moves first, deciding whether or not to publicly threaten 2. If 1 chooses to publicly threaten (T), 1 can also choose between two types of secret

⁶ For modeling simplicity, we assume that the public utility from winning is equivalent in magnitude to the loss from incurring audience costs. This assumption is not necessary to derive our substantive results as long as states that value audience costs relatively highly also consistently value public victory relatively highly.

⁷ Throughout, we assume that leaders value real assets symmetrically. The focus of our analysis is not on asymmetrical valuations of real assets, and allowing valuations to vary does not alter our substantive conclusions.

agreements to accompany the threat. First, 1 can “bribe” 2 by offering a secret concession of endogenously determined size s_b in return for securing public victory. Second, 1 can use “extortion” by demanding a secret concession of endogenously determined size s_e in return for offering public victory to 2. A public threat accompanied by no secret offer, which is standard in most other models, can occur here if 1 offers $s_b = 0$ in equilibrium. After observing 1’s move, 2 has the option of rejecting or accepting 1’s offer. If 2 rejects, 1 chooses between going to war and backing down. The sequence of moves is not critical for deriving our substantive results – a model in which both players can offer bargaining proposals produces similar insights.

If 1 chooses to make no public threat ($\sim T$), 1 can still make an extortionary demand of endogenously determined size s .⁸ If $s = 0$, status quo obtains, the payoffs for which are normalized to 0 for both players. In the event of war, the players receive w_i . 1 can back down without cost following a private threat, but incurs a cost ($-p_1$) if it backs down from a public threat. We also assume that leaders gain a positive payoff for winning (p_i), and that 2 incurs a cost ($-p_2$) from public defeat.⁹

As a stylized illustration, we may think of the Cuban Missile Crisis as analogous to the case where 1 (Kennedy) issues a public threat and offers a secret concession of size s_b^* , and 2 (Khrushchev) accepts the offer. In this case, 1 receives payoff $p_1+r-s_b^*$, and 2 receives $-p_2-r+s_b^*$. During the Cuban Crisis, the real issue in contention (r) was the status of the missiles in Cuba, an issue resolved in favor of the US. Public victory in the crisis gave Kennedy a boost with his domestic and international audiences (p_1), for example by increasing his domestic approval rating from 61% to 74%.¹⁰ Khrushchev paid a public price for the defeat ($-p_2$) with his international audience and by giving his rivals on the Central Committee ammunition against him. In order to secure victory, Kennedy offered a secret quid pro quo –

⁸ This branch of the tree resembles that presented in Kurizaki (2007).

⁹ This is consistent with the modeling assumptions of Fearon (1994), in which both states incur audience costs regardless of the first mover, as well as the extended form game in Kurizaki (2007).

¹⁰ This boost in popularity did not wear off for around eight months subsequent to the crisis (Cook 2002).

the pullout of Jupiter missiles from Turkey – but under the condition that the Soviets not breach the concession publicly. We will discuss this case in more detail in Section 6.

4 Equilibrium Derivation and Testable Implications

In deriving the equilibria, we use subgame perfection. We present the comparative statics for a representative set of parameters in Figure 2. See Appendix for derivation of equilibrium conditions for the fuller range of parameter values. The figures depict feasible equilibria and payoffs to 1 as a function of p_1 , its value for public victory. The strategies contained in brackets along the x-axis are equilibria that obtain for different ranges of p_1 . The solid line represents 1's overall payoffs in the corresponding equilibria, and the dotted line represents the overall payoff minus p_1 – it can be thought of as the real goods obtained or given away as a result of the settlement.

Figure 2 depicts the case where 1 has a high war payoff ($w_1 > -p_1$), and 2 a low war payoff ($w_2 < 0$). In this case, we find that a public threat followed by extortion is the only feasible equilibrium where $p_1 < p_2$, and bribing is the only feasible equilibrium when $p_1 > p_2$. In other words, when 1 has a lower sensitivity to public outcomes than 2, 1 will always demand a secret concession in return for backing down, and when the opposite is true, 1 will always offer a secret concession in return for 2's capitulation. In the extortion range, 1 receives a secret concession of size $p_2 - w_2$, which means that the more 2 values public victory, the more 1 can extort for granting it. In the bribe range, 1 offers a secret concession of size $p_2 + r + w_2$, which means that the more 2 values public victory, the more 1 has to offer to induce 2 to back down. The logic underlying the comparative statics is simple. In the bribing range, 1 benefits from p_1 being high, since this results from a high payoff from public victory. 1 also benefits from p_2 being low, since this makes bribing 2 cheaper. Conversely, in the extortion range, 1 benefits from p_1 being low because it backs down publicly, and it benefits from p_2 being high because then a higher payoff can be extracted from 2 for giving it the public victory. 1's total payoff is $-p_1 + p_2 - w_2$ in the extortion range and $p_1 - p_2 - w_2$ in the bribing range, which is represented by the solid line. The "real" payoff to state 1, which

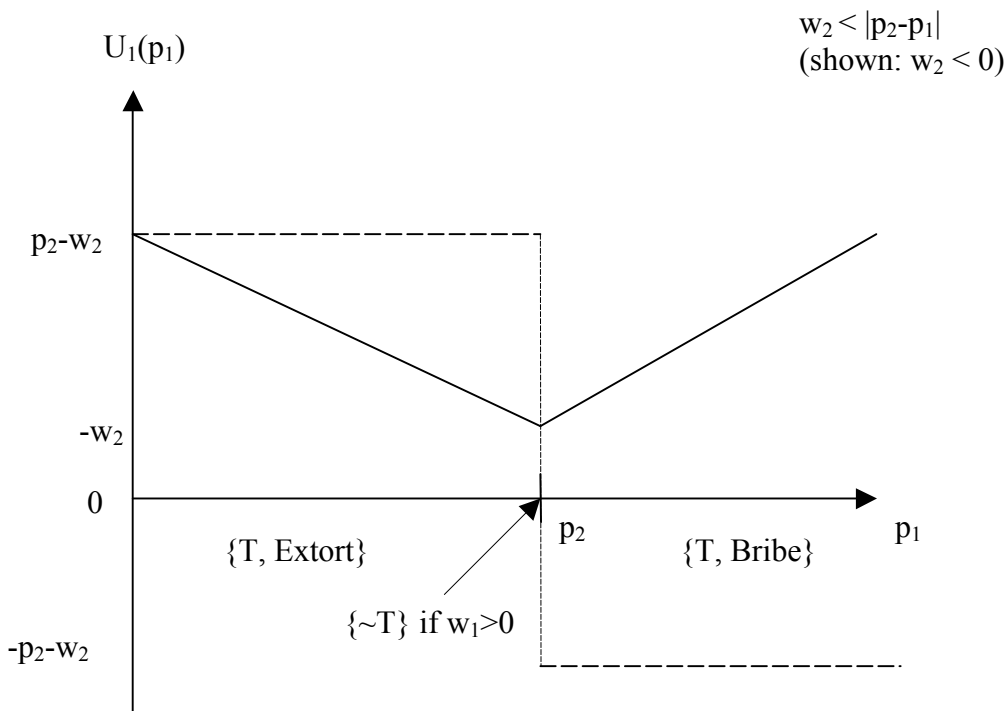
excludes the leader's payoff from public gain or loss, is $p_2 - w_2$ in the extortion range and $-p_2 - w_2$ in the bribing range.

Thus, the relationship between 1's valuation of public outcomes and its payoff in equilibrium is not straightforwardly positive. In fact, in Figure 2, as p_1 rises from low levels to the level of p_2 , 1's utility falls. This is because, in this range, 1 is better off backing down in return for a secret concession from 2, and the higher is p_1 , the more 1 suffers from public defeat. In this low range of p_1 , player 1 does, however, receive a positive, albeit secret, payoff in terms of real goods. Once p_1 rises above p_2 , 1's utility begins to rise, since it now increasingly values public victory, which it receives. However, this victory comes at a cost of real goods. In this range, 1's payoff in terms of real goods, indicated by the dashed line, can be positive or negative (negative payoff is shown in Figure 2, and it would rise as 2's payoff for war falls), but it is always less than the real payoff 1 would receive if p_1 were in the low range.

Curiously, the conditions are very restrictive for the equilibrium in which 1 makes a private demand and receives a private concession ($\sim T$). 1's war payoff has to be greater than 0; otherwise, any offer will be rejected by 2 in favor of the status quo. Additionally, 2's war payoff has to be less than 0; otherwise, it cannot be coerced into giving up any concessions. Moreover, p_1 and p_2 must be exactly equal. If they are not, the players can always take advantage of their different valuation of the public outcome by trading public and private goods. This is reflected in Figure 2: 1's utility is smallest when $p_1 = p_2$. Public threat equilibria are also possible when $p_1 = p_2$, potentially further restricting the incidences of successful private threats. While Kurizaki (2007) argues that private threat equilibria are attractive because of their efficiency, incorporating the possibility of secret diplomacy in conjunction with a public threat appears to severely restrict the range where completely private threats are preferable. However, it is possible that there are higher unmodeled costs associated with secret diplomacy when it is conducted in the shadow of an ongoing public dispute (e.g. the probability that a deal will be revealed may be higher because of publicity surrounding the public dimension of the crisis), which would expand the range where successful private threats are attractive.

When 2's war payoff, w_2 , is greater than 0, the V-shaped utility function shown in Figure 2 dips below 0, and the status quo range opens up around the $p_1 = p_2$ point. In this range, the increase in 2's bargaining power is enough to make secret concessions or secret demands more costly for 1 than not threatening. In fact, when w_2 becomes bigger than the difference between the players' valuation of public outcomes, 1's payoff from bribing or extortion will always be less than 0, and so status quo will be the uniform outcome on the parameter space. The broader implication, however, is that when the players value public outcomes equally, or roughly equally under certain conditions, secret agreements will not occur.

Figure 2: 1's utility as a function of p_1 . High war payoff: $w_1 > -p_1$



The preceding discussion gives rise to several propositions. *Ceteris paribus*:

H1: Regimes with disparate valuations of public outcomes are more likely to conclude secret agreements with each other than regimes with similar valuations. This follows

directly from the previous paragraph, which explains why secret agreements will not occur under certain conditions when players value public outcomes equally or roughly equally. See A4 for proof.

H2: Regimes with disparate valuations of public outcomes are more likely to publicly challenge each other than regimes with similar valuations. A public challenge opens a way to an attractive bribing or extortion outcome, making crisis initiation an attractive option, as long as the defender's and the challenger's valuations of public outcomes differ.¹¹ See A4 for proof.

H3: When secret agreements are used to resolve a crisis, secret concessions (bribes) are more likely to be offered by leaders who value public outcomes highly, and public concessions are more likely to be offered by leaders who do not value public outcomes as much. This is simply a restatement of conditions that support bribing and extortion equilibria (see A3, cases I and II).

H4: Because obtaining a public concession is equivalent to a victory in a dispute, it follows from H3 that leaders who place higher value on public outcomes will appear to win more disputes than those who do not.¹²

¹¹ In the model, disparate valuation of public outcomes result in the highest payoffs for negotiating leaders. While we do not model negotiation dynamics, our findings imply that leaders that decide to back down publicly in return for public payoffs will try to keep their audience costs as low as possible, while leaders who are publicly victorious will try to inflate their payoffs for public victory. This could be accomplished via strategic information manipulation through the media.

¹² It is also possible that these leaders' audiences will have an inflated notion of their state's bargaining strength. Inflated expectations by the audiences may further magnify audience costs for these leaders.

H5: Successful secret threats are most likely between regimes with similar valuations of public concessions and in the presence of significant power asymmetry (see A3, case III).

5 Discussion

One of the main implications of the model is that leaders who value public outcomes highly find it difficult to use audience costs as a mechanism for credible commitment, since they have incentives to concede privately in order to gain a benefit from a public victory. As we have described in Sections 1 and 2, both the audience cost literature and the selectorate theory generally assume that democratic leaders care more than autocrats about public outcomes. We will maintain these assumptions for the purposes of testing the empirical implications of our model. Our model then implies that democratic leaders have incentives to secure public victories at the cost of secret concessions and autocratic leaders have incentives to obtain secret concessions at the cost of public defeats. A critical objection to this claim is that many autocratic leaders care about public defeat as much as, if not more than, democratic leaders (Goemans 2000, Weeks 2008). If an autocratic leader who grants a public concession in return for a private gain runs a high risk of being overthrown or even killed in a coup, then it may not be true that autocracies are willing to give away public concessions in return for private gain. Weeks (2008), therefore, argues that “personalist dictators” are the only autocratic leaders who generally care less about public outcomes than democratic leaders. In line with this assertion, we follow Weeks in hypothesizing that personalist dictatorships face minimal risks from giving away public concessions and are, therefore, the most likely regime to do so. At the same time, we argue that the secret concessions that a losing party receives in our model make suffering a public defeat palatable to other types of autocracies, such as single-party or military regimes, though not to democratic leaders.

To understand why this is the case, it becomes crucial to remember that democratic and autocratic leaders have quantitatively and qualitatively different winning coalitions. Personalist dictators, almost by definition, have the smallest winning coalitions, but winning coalitions of most autocrats are still smaller than those of democratic leaders (Bueno de Mesquita et al. 2004). A small winning coalition has two

important features. First, an audience capable of imposing costs on an autocratic leader is composed of elites who are generally privy to the content of foreign policy outcomes, including secret payoffs. Therefore, they may not punish a leader for a public loss, as long as private gains are of real value, particularly to themselves. This is the second feature of small winning coalitions: as long as the secret concession is fungible, private gains can be easily redistributed among the coalition, both because the coalition is small, and because the broader public is not aware of the gains. For a democratic leader with a large winning coalition, such redistribution will not improve electoral fortunes. Instead, she needs to provide indivisible public goods, which is accomplished by winning publicly (Bueno de Mesquita et al. 1999, 2004).

Thus, while we agree with Weeks that personalist dictatorships may have particularly low sensitivity to public defeats, we echo Bueno de Mesquita et al. in contrasting democracies with non-democracies when it comes to valuation of private goods. This contrast leads us to the prediction that, on average, democracies and autocracies have incentives to trade secret for public concessions with each other. These incentives may be particularly acute for democracies bargaining with personalist dictatorships.

If autocracies find it relatively unproblematic to strike secret deals, what about democracies? First, democracies may find initiating the process of arriving at secret agreements more risky compared to autocracies. Our model assumes that a leader's sensitivity to public victory or loss is known to her opponent. However, compared to democracies, autocracies may have difficulty signaling how much they care about disputed issues (e.g. Schultz 1999, 2001). If this is the case, one implication of our theory is that democratic leaders will be cautious about issuing public challenges accompanied by secret offers to autocracies, since there is a possibility that they will face a recalcitrant autocrat that cares deeply about a public outcome of a dispute. Autocrats making extortionary challenges vis-à-vis democratic states do not face the same problem – not only is there greater transparency about the sensitivity of the opponent's regime to public outcomes, but the costs of publicly backing down after crisis initiation are small. This

insight may provide a theoretical foundation for the empirical evidence indicating that democracies are less likely to challenge autocracies than vice versa (Reiter and Stam 2003, Peceny et al. 2003).

Another possible objection is that democracies, because of their inherent transparency, will have a difficult time making and concealing secret agreements. This problem can be overcome by delegating the execution of secret concessions to agencies relatively isolated from public scrutiny within democracies, such as the intelligence services, and, in the U.S. case, through the use of executive agreements, which will be discussed in Section 6. It should also be noted that our case study evidence suggests that democracies are indeed capable of keeping agreements secret for relatively long periods of time. Ultimately, the risk of revelation a leader is willing to bear should depend on her time horizons. Because democratic leaders have relatively short terms of office and, therefore, short time horizons, eventual leaks may not represent a problem for the ex-ante decision to engage in a secret agreement, especially if elections are near or the leader is in her last term.

A related factor that may dampen the incentives of both democratic and autocratic leaders to strike secret agreements is the issue of trust. If the party receiving a secret payoff reveals the terms of the agreement, it would nullify the public victory payoff for the other leader and make an agreement unattractive. Similarly, if there is no mechanism to prevent the party giving away the secret concession from renegeing on the delivery, the agreement will be unattractive to the receiving party. For an agreement to be attractive to both sides ex ante, both must have some leverage to decrease the other side's incentives to reveal or renege, at least for a period of time acceptable to both parties. For example, the side giving up a public concession might be in a position to leak the terms and restart the crisis if the other side reneges on the payment, whereas the side giving up secret concessions should be able to cut off payment if the other side leaks information.

To elaborate, there are several factors that may dull incentives to renege on, or reveal, a secret agreement. First, if a party benefiting from a secret agreement plans to engage in similar agreements in the future, reputational concerns may dull incentives to reveal or renege. Second, incentives to reveal may be managed by structuring secret payoffs to create a credible threat of ceasing payment if revelation

occurs. This can be done by agreeing to a stream of payoffs (e.g. in the form of foreign aid) as opposed to a lump sum transfer. Finally, a number of factors may preclude a leader from renegeing on making secret payoffs, such as the threat of revelation of agreement, mechanisms for institutionalizing payoffs (e.g. again, through publicly committing to foreign aid payments that are, in reality, part of a secret deal), or having a personal stake in actually delivering on the promise to deliver concessions. In the example of the Cuban Missile Crisis, which is discussed in Section 6, despite the fact that the removal of Jupiter missiles from Turkey would have been opposed by the US public, military, and allies, Kennedy may have had incentives to take them out independently from Soviet demands. Communicating this fact to the Soviet ambassador might have lent credibility to Kennedy's promise to remove the missiles. Furthermore, had the Jupiter missiles not been removed, theoretically, nothing could have stopped the Soviets from reigniting the crisis – a consideration that might have made an agreement more credible *ex ante*.

The final factor that might limit the frequency of secret agreements is concern about *repeated* extortionary threats or giving in to “salami tactics.” According to this argument, our model does not address the possibility of repeated interactions, in which the only way to prevent recurring extortionary challenges is to stand firm in early rounds. This is the reason why John Bolton criticized the potential nukes-for-aid agreement between the Bush administration and North Korea for “reward[ing] bad behavior” and being “everything the administration criticized in President Clinton's 1994 framework” deal (*USA Today* 2007). However, even in a repeated game, democratic leaders may not have strong incentives to prevent extortion. First, giving in to repeated extortion also means repeatedly scoring public victories. Second, short tenure and short time-horizons of democratic leaders may prevent them from internalizing the future negative consequences of extortionary demands, which are left for successor governments to deal with. As an empirical matter, even when “salami tactics” are a serious and stated concern, secret agreements *still* take place despite potential for inviting future extortionary behavior, as it may have happened in the case of North Korea and, as we will discuss, during the Cuban Missile Crisis.

Just as there are factors that may constrain leaders from engaging in secret agreements, there are factors that amplify incentives to engage in them. For example, a democratic leader may want to initiate a crisis from which he will emerge victorious if elections are near and the polls show declining prospects of electoral victory. As we have seen in this section, the applicability of our theory is conditioned by factors too numerous to model explicitly in one article. Our goal here is not to investigate all the possible reasons why agreements may fail or ways to avoid such failure. Rather, we are calling attention to the potential importance of secret agreements and the need to reconsider existing theories when secrecy is an option.

Before moving on to empirical evidence, it is worth asking what form we expect secret concessions to take. First, almost tautologically, a secret concession should be easy to conceal. Second, it should be easy to withhold in case of revelation and to commit to as long as no revelation occurs. Finally, it should be fungible in order to make it more attractive to the receiving party by enabling redistribution among the leader and his selectorate. We suggest that foreign aid often comes close to being a perfect concession thus defined. Although not “secret” per se, foreign aid is noisy – aid increases can be attributed to other legitimate factors. In addition, payouts can be structured to reduce temptations to renege, and most forms of aid are fungible. Therefore, we predict that secret concessions will often take the form of foreign aid. We elaborate on this point at the end of the following section.

6 Empirical Evidence

As discussed in the previous section, our model gives rise to several implications with varying degrees of empirical testability. In testing our predictions, we will follow the existing literature in assuming that democratic leaders value public outcomes more because they face higher audience costs or have large winning coalitions that are not privy to the details or spoils of private agreements. Some of our propositions find broad empirical support in the existing literature. In accordance with H2, democracy-dictatorship dyads are the most prone to interstate dispute initiation (Peceny, et al. 2002, 2003; Reiter and Stam 2003). In accordance with H4, democracies are less likely than autocracies to back down in

interstate disputes (Partell and Palmer 1999, Schultz 1999). In this section, we will focus on the remaining propositions, particularly H1 and H3, while also paying attention to the other implications of our model discussed in the preceding section.

As we mentioned in the previous section, our model adopts the language of crisis bargaining in line with the existing literature. However, our basic insight is generalizable to a broader range of bargaining situations that exhibit similar characteristics. The insight is simple and, therefore, broadly applicable: when leaders value public and private outcomes differently, they have incentives to trade public victories for private gain.

Do democracies tend to offer secret concessions to autocracies in return for favorable public outcomes? By definition, secret agreements are conducted outside of the public domain. In turn, available empirical evidence tends to be limited and subject to serious selection problems. Nonetheless, there is some historical as well as quantitative evidence to support our propositions. To find historical evidence in support of our claims, we searched scholarly and news databases for evidence of secret agreements that helped resolve an international crisis in favor of one of the participants. This criterion is important: some famous instances of secret agreements, such as the Molotov-Ribbentrop pact, are examples of collusion to take advantage of third parties, which is not the kind of phenomenon addressed in this study. General conclusions cannot be drawn from this case study evidence, as there is no reliable way to overcome the selection problem – the universe of secret agreements is unknown, as is the mechanism that leads to their revelation. However, we believe there is sufficient case study evidence to illustrate the plausibility of our theoretical claims.

In this section, we start by discussing the secret agreement that helped resolve the Cuban Missile Crisis. We will also consider several additional cases that add plausibility to our theoretical claims. In addition, we will analyze two data sets that shed light on the propensity for the United States to conduct secret diplomacy according to opponent regime type. The first concerns the selection of agreement type – before secret agreements were prohibited by Congress, the United States exhibited a strong tendency to utilize less public executive agreements when conducting diplomacy with autocracies and more public

treaties when conducting diplomacy with democracies. Second, we examine evidence that the United States uses foreign aid to bribe rotating members of the UN Security Council in order to secure favorable public votes – the evidence is consistent with our predictions, with bribes more likely to autocratic states and states with small selectorates.

6.1 The Cuban Missile Crisis

The Cuban Missile Crisis is perhaps the most famous example that illustrates our theory. The crisis occurred in 1962 when the US learned about secret deployment of Soviet missiles on Cuba and responded publicly and forcefully with a blockade. Khrushchev eventually backed down, and the USSR removed the missiles. As part of the private understanding, however, Kennedy agreed to remove Jupiter missiles from Turkey. These missiles were removed a year later, and it was not until the publication of RFK's posthumous memoirs that it was revealed that the removal was part of the secret understanding between Kennedy and Khrushchev.

Although the Jupiters are argued to have had low military value in the wake of SLBM deployments (Allison and Zelikow 1999: 93, 114), Kennedy was concerned that the NATO allies, the US military, and, importantly, the US public would have interpreted the trade as an unacceptable concession to the Soviet Union, which is why it was paramount that the deal be kept private. Lebow and Stein write:

If the exchange had been public, the Ex Comm hawks and the chiefs would have been encouraged to voice their opposition by Republican senators... Journalists and congressmen, disappointed that Kennedy had not used the crisis as a pretext to overthrow Castro, would also have attacked the administration. An alliance of governmental and congressional critics could have been politically devastating to the president. Kennedy's political advisers had warned him earlier that a trade was out of the question.

(Lebow and Stein 1994: 129).

Arguing that military importance is not the only relevant factor for political considerations Raymond Garthoff wrote in a report to Rostow in October, 1962 that "Berlin, too, is not *militarily* significant" (Garthoff 2001: 176).

Given the perceived significance of the Jupiters to Kennedy's audience, their public removal would have been politically damaging for Kennedy. A historian of the Kennedy Library writes, "...Rusk,

finally recognizing JFK's determination, suggested that RFK advise the ambassador that a public quid pro quo for the missiles in Turkey was unacceptable, but the president was prepared to remove them once the Cuban crisis was resolved. The proposal was quickly accepted. Robert Kennedy was instructed to tell Dobrynin that any Soviet reference to this secret proposal would make it null and void" (Stern 2004). Lebow and Stein describe the extent to which Kennedy's team went to "protect the president" after the deal was struck:

"When the Jupiters came out of Turkey six months [after the crisis], there was speculation that there had been a secret understanding with Moscow. The administration was publicly outraged.... Dean Rusk assured the Senate Foreign Relations Committee that no "deal" or "trade" had directly or indirectly been made with regard to the Jupiter missiles. McNamara told the same thing to the House Appropriations Committee....

In a jointly authored *Time* magazine article in 1982, McNamara, Rusk, Ball, Gilpatric, Sorensen, and Bundy argued that any disclosure of the full contents of Kennedy's discussion with Dobrynin would have been "misread" as a "concession granted in fear at the expense of an ally." McNamara insisted that even a secret trade would have set a dangerous precedent. "If [the Soviets] could get away with that, what else would they do? We saw in Berlin [that t]here was a slicing of the salami; slice by slice they were moving ahead, or trying to."

(Lebow and Stein 1994: 123).

McNamara's point is particularly enlightening, as it shows awareness of the dangers involved in rewarding extortionary behavior, and yet the deal went ahead *in spite* of such concerns. McNamara is acknowledging that the concession was real to Kennedy and the US, regardless of the immediate military utility of the Jupiters, which made secrecy all the more crucial. The deal was finally revealed in RFK's posthumous memoir seven years later, when the revelation could not have hurt either JFK's or RFK's political fortunes.

Why would Khrushchev have believed Kennedy's promise? In retrospect, he appears to have had no other choice, since he was as anxious to end the crisis as Kennedy, having miscalculated the probability and the severity of the US response. Additionally, as mentioned in Section 4, a possibility of reverting to the mutually disadvantageous pre-settlement condition probably played a role in ensuring that the agreement did not unravel. Just as Kennedy promised to not invade Cuba, Khrushchev pledged not to reintroduce missiles on the island (Garthoff 2001: 180, Lebow and Stein 1994: 130), and the potential capacity by both parties to renege on these promises was probably instrumental in having both parties

honor the agreement's terms. Additionally, Kennedy may have also offered an implicit assurance. RFK told Dobrynin that "the president doesn't see any unsurmountable difficulties in resolving this issue," and that "[t]he greatest difficulty for the president is the public discussion of the issue of Turkey" (Hershberg 1995: 80). It is unclear whether the Soviet leadership knew of JFK's purported pre-existing discomfort with the devolution of nuclear authority from the US to its allies (Allison and Zelikow 1999: 199), but RFK's statement of reassurance was clearly aimed at lending credibility to JFK's promise to remove the Jupiters, and it might have been successful in that regard.

To Khrushchev, the Jupiter deal represented a real concession. Even if he knew that Kennedy was uneasy with the Jupiters to begin with, it was the Khrushchev-initiated crisis that put the Jupiters on the table. From Khrushchev's standpoint, the Jupiters were important in at least two ways. First, Khrushchev showed dismay at the Jupiters before the crisis started. He "spoke out repeatedly against the deployment and complained to Kennedy about it on three occasions during their private talks at the Vienna summit" in 1961 (Lebow and Stein 1994: 44). From this standpoint, the resolution of the crisis could very well be regarded as a successful extortionary demand by the Soviet Union rather than a humiliating public defeat. Second, the deal was intended to help Khrushchev with "damage limitation" in the wake of Soviet retreat from Cuba (George Ball cited in Blight et. al. 1987: 179). Lebow and Stein are, again, extremely informative on this issue:

Kennedy's concessions were very important to Khrushchev. He considered them an important victory for the Soviet Union and one that enabled him to withdraw with honor. The Kennedy administration may have regarded the pledge not to invade Cuba as a low-cost concession; Khrushchev and his colleagues did not....

For Khrushchev, the withdrawal of missiles from Cuba in exchange for the removal of the Jupiters from Turkey was "extremely welcome." One of his most important reasons for sending missiles to Cuba was to change the political context in Washington by exposing the United States to the same kind of close-range nuclear threat faced by the Soviet Union.

American concessions were also important to justify the withdrawal of the Soviet missiles to the Cubans and Soviet militants. Khrushchev had the authority to withdraw the missiles without their consent, but to preserve that authority in the long term he needed to isolate the hard-liners and convince his remaining colleagues that he had made the right decision.

(Lebow and Stein 1994: 140-1).

The last paragraph, in particular, underscores how an autocratic leader could use his selectorate's knowledge about secret concessions to minimize the fallout from public defeat.

Overall, the Cuban Missile Crisis provides evidence for the theoretical claims and mechanisms we have proposed.

6.2 Additional Case Evidence

1962 would not be the last year an American president secured a public diplomatic victory at the cost of secret concessions. During the cease-fire negotiations among the Vietnam War combatants in 1972-1973, the United States offered secret concessions to both the North and the South in order to secure the peace pact. In return for supporting the accord, Nixon promised the premier of North Vietnam reconstruction aid – a promise that was subsequently hidden from the public and Congress for four years. Nixon also secured the signature of South Vietnam by secretly committing the United States to retaliatory action should the North violate the cease-fire, assurances that were yet again hidden from the public eye (Johnson 1984: 70-71). We will never know whether Nixon would have fulfilled any of these assurances had he remained in office. In particular, the North Vietnam had the lowest stake in fulfilling the agreement once the credibility of further US support for the South was undermined. However, the agreement was mutually beneficial to the Nixon administration concerned with the upcoming midterm elections and to the North, which was just as anxious to end American involvement.

Secret concessions were also utilized by the administration of Lyndon B. Johnson to secure the cooperation of allies in the Vietnam War. In 1966, the United States reached a secret agreement with South Korea.¹³ Publicly, South Korea would dispatch combat troops to Vietnam to assist the US war effort. As a private quid pro quo, the US promised to pay for commercial consumables such as tiers, clothing, oil products, and gas used by Korean soldiers in their homeland (Johnson: 67-68).

Although there was a backlash against secret diplomacy after Watergate and the resignation of Nixon, U.S. presidents continued to utilize secret concessions as a means for securing public objectives. In order to resolve the Iran hostage crisis of 1979-1981, President Carter concluded several executive agreements with Iran that released Iranian assets in the US and provided immunity from future litigation.

¹³ South Korea was not an autocracy in 1966, but had a polity score of 3, considerably below that of the US.

The terms of these agreements remained secret into the beginning of Reagan's presidency (Taylor 1981). The Iran-Contra affair can also be interpreted in a similar light. The Reagan administration provided secret arms sales to Iran in anticipation of a public release of American hostages being held in Lebanon. If the affair had not been subject to public scrutiny, one can imagine an outcome in which both parties ultimately benefited: Reagan through the public release of hostages, and Iran through the secret procurement of much needed weapons for use in the war against Iraq.¹⁴ It is also worth noting that the agreement was leaked by a radical in the Islamic Revolutionary Guards who was opposed to dealing with the US, not by any of the groups directly involved in the agreement (Cave 1994, De Braeckeleer 2008).

Other democracies have utilized similar means to secure public objectives. According to archival evidence released in 2005, Japan and South Korea (an autocracy at the time) reached a secret agreement in 1962 over normalization of relations. South Korea publicly abandoned the right to pursue future reparations related to World War II and colonization. In return, Japan promised foreign aid consisting of \$300 million in grants and \$200 million in loans. While the public outcome was considered "humiliating" in Korea, the link between the reparation issue and the aid package was kept secret to avoid "domestic disruption in Japan" (*The Korea Times* 2005, *Nikkei Shinbun* 2005).

In 1973, the government of France allegedly traded intelligence information to avoid public embarrassment. During the Paris Air Show of 1973, the Soviet answer to the Concorde, the supersonic jet Tu-144, crashed due to interference from a French Mirage spy plane, killing all on board and six French citizens on the ground. The French cut a deal with the Soviets by which the culpability of French intelligence was hidden and blame was placed on the Soviet pilot. In return, the French secretly handed over the Mirage photos and radar data and agreed that the public report would find no fault with the Tu-144 itself (*PBS* 2000).

6.3 Treaties and Executive Agreements

¹⁴ For a detailed account, see *The Tower Commission Report (Report of the President's Special Review Board)*, U.S. Government Printing Office, Washington DC, 2-26-1987.

Broadly speaking, when the United States concludes agreements with foreign countries, three options are available: treaties, statutory agreements, and executive agreements. Treaties require ratification by two thirds of the Senate and generally face the highest levels of scrutiny. Statutory agreements (congressional-executive agreements) are pursuant to congressional legislation and usually require approval by both houses of Congress.¹⁵ Finally, executive agreements are ratified by the president alone and require no consultation with Congress. The classification "...roughly reflects a continuum of responsibility in agreement-making, ranging from 'pure' executive authority in the form of an executive agreement to the most demanding form of institutional partnership in the form of a treaty" (Johnson 1984: 8).

For this reason, written secret agreements have predominantly taken the form of executive agreements throughout US history. Besides directly concealing information from Congress, executive agreements allow the president to avoid the practical difficulty of keeping 100 senators mum on the details of secretive negotiations (Margolis 1985: 82-83). In addition, even when agreement terms are within the public domain, executive agreements represent the most discreet means by which an executive can conduct diplomatic exchange. Concerns over abuse of power led to a Congressional crackdown on the use of executive agreements for secretive purposes, beginning with the War Powers Act of 1973, Intelligence Oversight Act of 1980, and subsequent laws that required Congressional notification for all executive agreements. However, there is some dispute as to the efficacy of these laws.

These factors indicate that executive agreements are more likely to be utilized by the US to engage in secret diplomacy. Such agreements are best suited to conceal or obfuscate an international agreement or portions thereof.¹⁶ Since our theory predicts that, *ceteris paribus*, the US stands to benefit

¹⁵ Statutory agreements are often lumped together with executive agreements, but Congressional oversight is substantively greater for the former.

¹⁶ Available accounts indeed indicate executive agreements have been used for such purposes. Among others, see Johnson (1984); "Soviet bid to end UK deterrent: Moscow insists transfer of nuclear technology stops," *The Guardian*, 6-6-1990; "Abstract [on Kissinger's conclusion of the Paris Accords]," *The New York Times*, 1-27-1973; "U.S. Secretly Helped France Develop Nuclear Weapons, an Expert Writes," *The New York Times*, 5-28-1989.

more from secret diplomacy with autocracies than with democracies, we predict a greater proportion of agreements concluded with autocratic regimes will take the form of executive agreements.

Table 1: Ratio of Executive Agreements to Treaties Concluded by Regime Type of Agreement Partner¹⁷

Administration Agreement Partner	Truman	Eisenhower	Kennedy	Johnson	Nixon	Total
Democracy	2.1	1.7	1.8	4.2	2.9	2.3
Autocracy	4.5	2.0	3.0	11.5	5.3	4.3

We focus on the period since World War II during which there were no legal restrictions on the use of executive agreements for the purpose of secret diplomacy. Table 1 presents the ratio of executive agreements to treaties as a function of opponent regime type for various administrations. As an illustration, the table indicates that Truman concluded 2.1 times more executive agreements compared to treaties with democratic agreement partners. The same ratio for Truman’s autocratic partners was 4.5, indicating that compared to democracies, autocracies tended to get proportionately more executive agreements from the US. Over the total sample, the ratio is 2.3 for democracies and 4.3 for autocracies with a p-value of 0.008.¹⁸ Note that the highest ratios occur during the Johnson and Nixon administrations, particularly vis-à-vis autocratic partners. This trend is consistent with the subsequent congressional backlash and crackdown against secret diplomacy. This provides support for our hypothesis that executive agreements are more likely to be used for diplomacy vis-à-vis autocratic regimes.¹⁹

¹⁷ Data recalculated from Johnson (1984: 41). “Totalitarian” and “Authoritarian” regimes were combined into the single autocratic category for purposes of this analysis. Statutory Agreement are excluded from the analysis to focus on the greatest differential in congressional involvement between treaties and executive agreements. As the original analysis was conducted on punch cards, we were unable to replicate or extend the results from the raw data.

¹⁸ Two-sided asymptotic test.

¹⁹ The leading alternative hypothesis for selection of agreement type is that treaties involve more government actors and hence signal more credible commitment (Martin 2005). However, there is no prima facie basis to believe that democracies should consistently demand more credible commitment from the US compared to autocracies. It is also

6.4 Foreign Aid and the U.N. Security Council

Additional support for our proposition H1 is provided by Kuziemko and Werker's (2006) quantitative analysis of US foreign aid flows. The authors find that U.S. aid increases significantly to countries that rotate onto the UN Security Council, indicating the potential presence of votes-for-aid quid pro quo agreements. These arrangements are hidden from the public and involve a trade of public for private concessions. It is true that foreign aid is tied to specific events, and so foreign aid flows cannot be turned on or off at will. However, how *strongly* the aid donor responds to such events can be a function of the payoff it expects to receive in return.²⁰ A vote in support of the US position over important issues can be regarded as a victory for the US in the realm of public diplomacy. In turn, foreign aid flows, not officially tied to the diplomatic outcomes in the Security Council, can be considered a private concession on behalf of the US. Because the US is a democracy, our model predicts it more likely for such deals to be struck with autocracies.

We obtained the data from Kuziemko and Werker (2006), replicated the original results and then investigated whether the effect of Security Council membership on aid flows is contingent on regime type.²¹ The results confirm our model's predictions: when a country occupies a seat on the Security Council, its US aid goes up by a significant amount if it is a dictatorship, but changes by an insignificant amount if it is a democracy.

The panel data set includes developing countries (i.e. potential recipients of US aid) that were members of the UN, excluding China, which has a permanent membership on the Security Council. The dependent variable is a logged sum of economic and military assistance from the US, converted to

possible that the US prefers to conceal agreements with autocracies for other reasons, e.g. because agreements concluded with such regimes involve morally objectionable terms. Based on our survey of publicly available information on secret executive agreements, such alternative motivations do not appear to be a major factor, but it is not possible to rule out this explanation entirely.

²⁰ This is akin to Andrew Reeves's (2007) finding that presidential disaster declarations and the associated federal funding are a function of the state's importance in upcoming elections.

²¹ Kuziemko and Werker performed a similar analysis in an unpublished version of their manuscript (October 2004), and their results accord with ours.

constant US dollars. We use a logarithmic specification following Kuziemko and Werker (2006) and Alesina and Dollar (2000). The data covers the time period from 1946 to 2001, with over three-fourths of the country-year observations receiving economic aid, and nearly one half receiving military aid.

We included the two original control variables: war, indicating whether a country was involved in a major war in a given year, and the log of real GDP per capita. In addition, we included a Cold War dummy to account for a different political environment of the 1990s, and the affinity index variable, measuring the correlation of voting in the UN General Assembly between the US and the potential aid recipient (Gartzke and Jo 2002). The inclusion of the affinity index controls for the general propensity to give more aid to friendly governments. To avoid endogeneity, we set the values of the index for all the Security Council membership years to the value of the index in the year prior to selection. To proxy for the propensity to value public outcomes, we divided the Polity 2 scale into three categories: “autocracies” have a score between -10 and -6, “democracies” have a score between 6 and 10, and the rest are “intermediate.” Our regime variable, *Regime*, has values of -1 for “autocracies,” 1 for “democracies,” and 0 for “intermediate” regimes. This cruder measure of regime type should help adjust for the fact that leaders of many intermediate regimes may face high audience costs, and the magnitude of these costs may vary imperfectly with polity score. Finally, we included the interaction term between our regime type variable and Security Council membership in order to test for the conditional effects that we hypothesize. We estimated the model using two alternative specifications of regime type. One, taken from Weeks (2008), divides autocracies into personalist, military, and single-party regimes. Based on our discussion in Section 5, we expect all types of autocratic regimes to experience increases in aid relative to democracies when on the Security Council, with personalist regimes experiencing the greatest increases. In the other specification, we use BDM et al.’s measure of the winning coalition size, expecting regimes with smaller winning coalitions to experience greater increases. The descriptive statistics are reported in Table 2.

We follow Kuziemko and Werker in specifying the model as follows:

$$\ln(Aid_{irt}) = \alpha + \beta SCMem_{it} + \gamma Regime_{it} + \lambda SCMem_{it} * Regime_{it} + \rho X_{it} + W_{rt} + \eta_t + \mu_i + \varepsilon_{it}$$

where i indexes countries, r indexes regions, t indexes years, $SCMem$ is a dummy variable coded as one if country i is serving on the Security Council in year t , X is a vector of time-varying political and economic controls for each country, W is a regional quartic time trend,²² η is a vector of year fixed effects, and μ is a vector of country fixed effects. Country and year fixed effects allow us to control for country- and time-specific factors not captured by the other variables.

Table 2: Descriptive Statistics for the Data Used in the Aid Model

Variable	Mean	St Dev	Min	Max
ln(Aid)	12.34	6.34	0	21.55
SC Membership	0.06	0.24	0	1
Regime	-0.07	0.86	-1	1
War	0.08	0.28	0	1
ln(rGDPpc)	7.80	0.81	5.64	9.72
Affinity	0.02	0.40	-0.71	1
Personalist	0.35	0.48	0	1
Military	0.21	0.41	0	1
Single	0.37	0.48	0	1
Coalition Size	0.52	0.28	0	1

To ascertain that the Security Council effect on aid is causal and not driven by omitted variables, Kuziemko and Werker show that the average amount of aid given to a rotating member of the Security Council increases during important diplomatic years, measured by the number of times the Security

²² “The regions are Europe and Central Asia, East Asia and the Pacific, sub-Saharan Africa, Latin America and the Caribbean, and other. We include a linear time trend for Egypt, recognizing the dramatic increases in aid to Egypt following the Camp David Accord; Israel is not part of the data set since it was a high-income country in 2003. Recognizing that Egypt should be treated as a special case in foreign aid estimations is consistent with major recent papers (Alesina and Dollar 2000, Burnside and Dollar 2000)” (Kuziemko and Werker 2006: 914 fnt 2).

Council is mentioned in the New York Times, and that the increases in aid closely track the actual years of membership tenure. We also replicated these results.

Our main finding is shown in Figure 3. Comparing the sizes of coefficients on Regime and the interaction term in Table 3 (Model 1), it is clear that the US gives more aid to democracies overall. However, as we can see from Figure 3, on average, autocracies receive a large and statistically significant increase in aid when they rotate onto the Security Council. The increase, measured in percentage points because of the logarithmic scale, is equal to about 260 percent. Democracies rotating onto the Security Council actually experience a decrease in aid, which is statistically insignificant at the 95 percent level. The coefficient on the interaction term is negative and significant at the 95 percent level, indicating a statistically significant difference in favor of autocracies in the marginal effect of Security Council membership across regime types.

Figure 3: Marginal Effect of Security Council Membership on US Aid

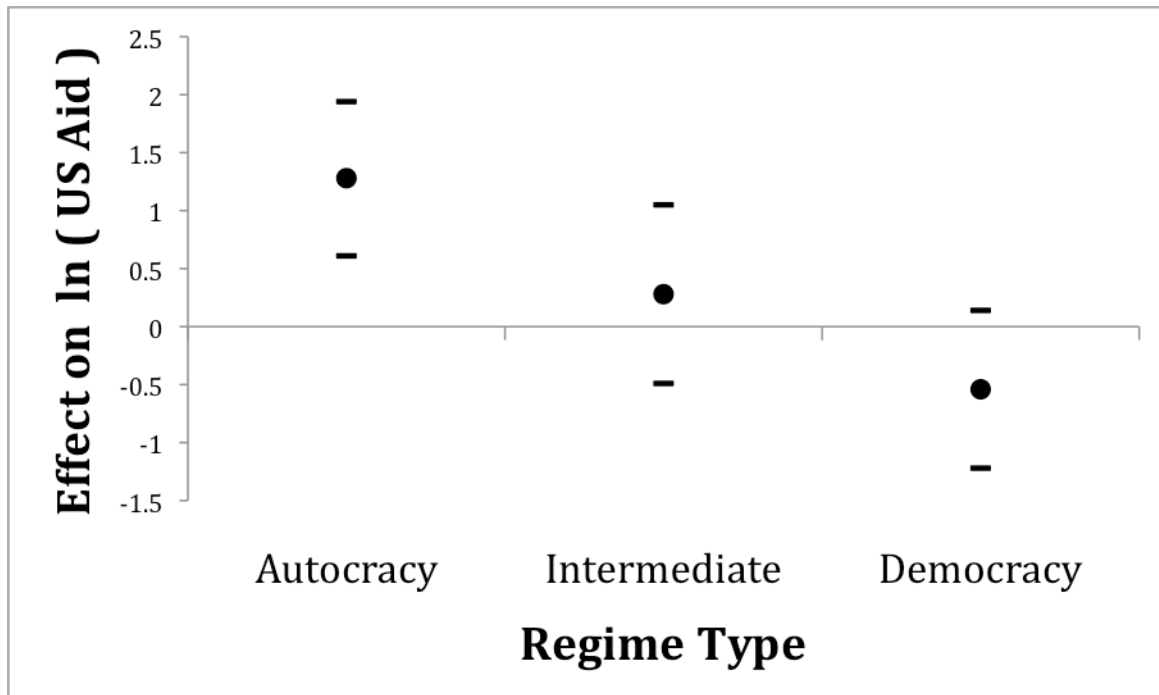


Table 3: Regression Coefficients From the Aid Model

DV: ln(Aid)	Coefficients (95% CI)		
IVs:	Model 1	Model 2	Model 3
SC Membership	0.35 (-0.11, 0.80)	-0.05 (-0.93, 0.84)	1.04 (0.38, 1.70)
Regime	0.38 (-0.04, 0.79)		
SCMem * Regime	-0.87 (-1.30, -0.44)		
Personal		-0.72 (-1.51, 0.08)	
Military		0.70 (-0.13, 1.52)	
Single-Party		-1.50 (-2.70, -0.29)	
SCMem * Personal		0.75 (-.29, 1.80)	
SCMem * Military		0.44 (-.71, 1.59)	
SCMem * Single-Party		0.59 (-.47, 1.65)	
W (Coalition Size)			1.01 (0.02, 1.99)
SCMem * W			-1.36 (-2.51, -0.21)
War	-0.09 (-1.34, 1.15)	-0.13 (-1.46, 1.19)	-0.11 (-1.34, 1.20)
ln(real GDP per capita)	-1.04 (-2.71, 0.64)	-0.90 (-2.86, 1.06)	-1.09 (-2.78, 0.60)
Affinity Index	0.70 (-0.46, 1.86)	0.62 (-.72, 1.95)	0.71 (-0.44, 1.86)
Cold War	-0.42 (-1.15, 0.31)	-0.41 (-1.30, 0.47)	-0.41 (-1.14, 0.31)
N	3703	2620	3703
Adj. R ²	0.58	0.57	0.58

To test the alternative proxies of leaders' propensity to value public outcomes, we reran the model replacing our Regime variable and the interaction term with Weeks's (2008) regime dummies and corresponding interactions (Model 2). The marginal effect of Security Council Membership was higher for autocracies than for democracies, as indicated by the positive coefficients on the interaction terms, and highest for personalist dictatorships, whose leaders Weeks hypothesizes to have the lowest audience costs, although the results are not statistically significant at conventional levels. We also replaced our Regime variable with Bueno de Mesquita et al.'s (2004) measure of the size of winning coalition, and the results (Model 3) conformed to our predictions. As indicated by the negative and statistically significant coefficient on the interaction term between Security Council membership and the winning coalition size, the countries with smaller winning coalition size received larger increases in foreign aid upon selection onto the Security Council.²³

7 Conclusion and Extensions

Secret agreements have significant implications for our understanding of international relations. As we have indicated, the presence of unobserved agreements may be a source of bias in observed data, for example by making democracies appear to be more effective in international bargaining than they actually are. It is therefore critical for future research to examine the prevalence of secret agreements in international bargaining further.

We have argued that leaders of democracies care more about public outcomes and, therefore, face incentives to secure public victories at the cost of real, secret concessions. In a broader sense, however, a democracy-dictatorship continuum is only a proxy for the leaders' propensity to value public outcomes in general, and a public-private continuum is a proxy for the degree to which a country's population perceives the importance of a given issue. A given leader's audience may be engaged on some public policy issues, but not on others. For example, in trade negotiations with China, the US might face

²³ There are some problems with how the size of the winning coalition is operationalized in Bueno de Mesquita et al. 2004; specifically, whether its effects can be separated from those of Polity's democracy. See Clarke and Stone (2008) and Morrow et al. (2008).

elevated audience costs in the domain of trade when trade-related interest groups are engaged. However, this does not imply that audience costs are elevated in, say, the security domain. In turn, the Chinese may demand security concessions from the US in return for trade concessions. Therefore, if issue-linkage is possible, different valuation of public outcomes across issues may result in substitution of one public concession for another.²⁴ Although such agreements are not strictly secret, they reflect a dynamic analogous to the one we have described in this article.

What implications does our theory have for public policy? If the capacity to use audience costs as a mechanism of credible commitment is undermined by the possibility of secret agreements, should we praise attempts, such as those undertaken by the US Congress in the wake of Nixon's fall, to place institutional limits on such agreements? For example, the new Pakistani democracy that emerged in 2008 may be welcomed for a number of reasons, but it may make private understandings of the kind the US had with General Musharraf more difficult, as indicated by the tensions on the Afghan-Pakistani border that followed Musharraf's resignation.²⁵ North Korea is another difficult case. If North Korea is engaging in nuclear blackmail, the US might do well to bind itself to prevent payments that incentivize further demands.²⁶ If, however, the North Korean nuclear program is aimed at addressing its security concerns, which may have been particularly acute in the immediate aftermath of the Iraq invasion, it is good for the US to have the capacity to bribe North Korea in order to prevent nuclear proliferation.

Is secrecy good or bad? On the one hand, the possibility of secret payoffs may encourage extortionary behavior and, perhaps more importantly for citizens, introduce significant principal-agent problems. After all, secrecy at the highest levels was considered by Woodrow Wilson to be one of the most important causes of WWI, the war that nobody wanted. On the other hand, the Cuban Missile Crisis shows that secret agreements can help diffuse crises. As noted in the existing literature on secret

²⁴ However, see Morrow (1992) for some difficulties relating to the signaling properties of issue-linkage.

²⁵ "Pakistan troops 'repel US raid,'" *BBC News*, 9-22-2008.

²⁶ This solution has significant drawbacks, such as the possibility that North Korea will find the money elsewhere – namely, the buyers of its nuclear and rocket technologies.

negotiations, secrecy can help states escape from an unwanted war (Baum 2004, Kurizaki 2007, Leventoglu and Tarar 2005). Secrecy may also help neutralize the influence of hawkish public opinion. Had the victors at the Versailles Conference been able to sidestep the public's (especially the French public's) lust for German humiliation, the conditions that led to WWII might have been avoided.

As in most normative questions, there is no straightforward answer to whether diplomatic secrecy is good or bad. If we are to believe the "unwanted war" thesis about WWI, secrecy contributed to conflict by obscuring the peaceful intentions of European leaders. On the other hand, if audiences are excessively hawkish, or if leaders imprudently commit themselves publicly to intractable bargaining positions, secrecy may be instrumental in avoiding conflict. In the absence of a clear-cut answer, and in recognition of the particularly troublesome nature of principal-agent problems, one is reminded of Churchill's lament: "democracy is the worst form of Government except all those other forms that have been tried" (Churchill 1947). For similar reasons, transparency may be interchangeable with democracy in that statement. While resorting to secrecy may serve the public good at times, institutionalizing transparency may be a more prudent policy in the long term.

Appendix

A1 Equilibrium Offers

Equilibrium offers are the smallest offers that 2 will accept. 1's payoff from the offer should be no lower than its payoff resulting from 2's rejection of this offer.

$w_1 \geq 0$:

$$-s \geq w_2 \text{ and } s \geq w_1$$

These conditions say that 1's demand, if it is to be accepted, should not exceed 2's value for war, but it also cannot be smaller than 1's value for war; otherwise, 1 would rather fight than make an offer that would result in a settlement. Thus, the two inequalities imply:

$$\Rightarrow s^* = \max(w_1, -w_2)$$

In other words, 1 will demand $-w_2$, which is the highest demand to which 2 will acquiesce. However, if $w_1 > -w_2$, 1 prefers fighting to the settlement, so it demands w_1 , which is rejected by 2, leading to war. For conditions listed below, the logic of arriving at equilibrium offers is analogous.

$w_1 \leq 0$:

$$s^* = 0$$

$w_1 \geq -p_1$:

$$-p_2 - r + s_b \geq w_2 \text{ and } p_1 + r - s_b \geq w_1 \Rightarrow$$

$$\Rightarrow s_b^* = \min(p_1 + r - w_1, p_2 + r + w_2);$$

$$p_2 - s_e \geq w_2 \text{ and } -p_1 + s_e \geq w_1 \Rightarrow$$

$$\Rightarrow s_e^* = \max(p_1 + w_1, p_2 - w_2)$$

$w_1 \leq -p_1$:

$$-p_2 - r + s_b \geq p_2 \text{ and } p_1 + r - s_b \geq -p_1 \Rightarrow$$

$$\Rightarrow s_b^* = \min(2p_1 + r, 2p_2 + r);$$

$$p_2 - s_e \geq p_2 \Rightarrow s_e^* = 0$$

A2 Payoffs to 1 From Optimal Offers Accepted by 2

In this paper, we are primarily concerned with equilibria, in which secret agreements occur, rather than those where 1 backs down or war happens. Here, we calculate 1's utility from any given agreement by substituting an equilibrium offer that would be accepted by 2 into 1's payoff. "Extort" refers to 1's strategy coupled with a public threat, whereas $\sim T$ refers to an extortionary demand in the absence of a public threat.

$w_1 \geq -p_1$:

$$U_1(Bribe) = p_1 - p_2 - w_2$$

$$U_1(Extort) = p_2 - p_1 - w_2$$

$w_1 \leq -p_1$:

$$U_1(Bribe) = p_1 - 2p_2$$

$$U_1(Extort) = -p_1$$

$w_1 \geq 0$:

$$U_1(\sim T) = -w_2$$

$w_1 \leq 0$:

$$U_1(\sim T) = 0$$

A3 Equilibria, in Which 1's Offer is Accepted by 2

These are the equilibrium conditions supporting three types of outcomes: a bribe following a public threat, an extortion following a public threat, and an extortion in the absence of public threat. In all of the equilibria below, 2 accepts the offer. In parentheses, are 1's strategies off the equilibrium path, which would be played following 2's rejection of the offer in $\sim T$, Bribe, and Extortion subgames respectively. W refers to war, and BD refers to backing down.

I. Equilibria where 1 bribes (i.e. offers secret concession in return for public victory):

A) Bribe, (W, W, W)

Condition for off the path strategies:

$$w_1 \geq 0 \geq -p_1$$

$$U_1(Bribe) \geq U_1(W) :$$

$$p_1 - p_2 - w_2 \geq w_1 \Rightarrow p_1 \geq p_2 + w_1 + w_2$$

$$U_1(Bribe) \geq U_1(Extort) :$$

$$p_1 - p_2 - w_2 \geq p_2 - p_1 - w_2 \Rightarrow p_1 \geq p_2$$

$$U_1(Bribe) \geq U_1(\sim T) :$$

$$p_1 - p_2 - w_2 \geq -w_2 \Rightarrow p_1 \geq p_2$$

B) Bribe, (BD, W, W)

same as A), except:

Condition for off the path strategies:

$$0 \geq w_1 \geq -p_1$$

C) Bribe, (BD, BD, BD)

Condition for off the path strategies:

$$0 \geq -p_1 \geq w_1$$

$$U_1(Bribe) \geq U_1(\sim T) :$$

$$p_1 - 2p_2 \geq 0 \Rightarrow p_1 \geq 2p_2$$

$$U_1(Bribe) \geq U_1(Extort) :$$

$$p_1 - 2p_2 \geq -p_1 \text{ (trivially satisfied when above condition is met)}$$

II. Equilibria where 1 challenges publicly and extorts (i.e. demands secret concession in return for backing down):

A) Extort, (W, W, W)

Condition for off the path strategies:

$$w_1 \geq 0 \geq -p_1$$

$$U_1(Extort) \geq U_1(W) :$$

$$p_2 - p_1 - w_2 \geq w_1 \Rightarrow p_2 \geq p_1 + w_1 + w_2$$

$$U_1(Bribe) \leq U_1(Extort) :$$

$$p_1 - p_2 - w_2 \leq p_2 - p_1 - w_2 \Rightarrow p_1 \leq p_2$$

$$U_1(Extort) \geq U_1(\sim T) :$$

$$p_2 - p_1 - w_2 \geq -w_2 \Rightarrow p_1 \leq p_2$$

B) Extort, (BD, W, W)

same as A), except:

Condition for off the path strategies:

$$0 \geq w_1 \geq -p_1$$

III. Equilibrium where 1 extorts without issuing a public threat:

$\sim T$, (W, W, W)

Condition for off the path strategies:

$$w_1 \geq 0 \geq -p_1$$

$$U_1(\sim T) \geq U_1(W) :$$

$$-w_2 \geq w_1$$

$$U_1(\sim T) \geq U_1(Bribe) \text{ and } U_1(\sim T) \geq U_1(Extort):$$

$$p_1 - p_2 - w_2 \leq -w_2 \text{ and } p_2 - p_1 - w_2 \leq -w_2 \Rightarrow$$

$$\Rightarrow p_1 = p_2$$

A4 Proofs of Hypotheses H1 and H2

H1: Regimes with disparate valuations of public outcomes are more likely to conclude secret agreements with each other than regimes with similar valuations.

H1 follows from two propositions:

H1.1: For any p_1, p_2 , and p'_1 , such that $|p'_1 - p_2| > |p_1 - p_2|$, and for any given set of other parameters, if players 1 and 2 conclude a secret agreement, so will players 1' and 2.

H1.2: There exist some sets of p_1, p_2 , and p'_1 and other parameter values, such that players 1' and 2 will conclude a secret agreement, but players 1 and

2 will not.

Because the game is solved by backwards induction, as before, we first consider the sequence of the ranges of parameters relevant in the last sub-game.

1) $w_1 \leq -p_1$:

$$U_1(Bribe) = p_1 - 2p_2$$

$$U_1(Extort) = -p_1$$

$$U_1(\sim T) = 0$$

There are no equilibria involving war or a public threat without an accompanying secret agreement, since 1's value for war is too small for either. The only possible equilibrium outcomes are status quo and bribery. A secret agreement will occur when $p_1 - 2p_2 > 0$ and will not occur otherwise.

It is easy to verify that both H1.1 and H1.2 hold. First, assume that player 1 bribes 2, but that 1' chooses status quo, which contradicts H1. This must mean that $p_1 - 2p_2 > 0$ and $p'_1 - 2p_2 \leq 0$, which means that $p_1 - 2p_2 > p'_1 - 2p_2$, or $p_1 > p'_1$. Further, $p_1 - 2p_2 > 0$ implies $p_1 - p_2 > 0$, which means that $p'_1 - p_2 > p_1 - p_2$ by assumption in H1.1, which contradicts the above. Thus, H1 holds.

Second, observe that bribing happens when $p_1 > 2p_2$, and status quo obtains otherwise. Player 1', for whom $p'_1 > 2p_2$ will bribe, and player 1, for whom $p_1 < 2p_2$ will not. Thus, H1.2 holds.

2) $0 \geq w_1 \geq -p_1$:

$$U_1(Bribe) = p_1 - p_2 - w_2$$

$$U_1(Extort) = p_2 - p_1 - w_2$$

$$U_1(\sim T) = 0$$

There is an equilibrium, in which 1 wins r without resorting to secret agreements, but the condition underlying this equilibrium ($w_2 \leq -p_2 - r$) is independent of the relationship between p_1 and p_2 . In all other cases, observe from the

utilities above that some secret agreement will occur as long as $|p_1 - p_2| > w_2$. H1.1 holds, since $|p'_1 - p_2| > |p_1 - p_2| > w_2$. H1.2 holds, since 1', for whom $|p'_1 - p_2| > w_2$ will pursue a secret agreement, and 1, for whom $|p_1 - p_2| \leq w_2$ will not.

3) $w_1 \geq 0$:

$$U_1(\text{Bribe}) = p_1 - p_2 - w_2$$

$$U_1(\text{Extort}) = p_2 - p_1 - w_2$$

$$U_1(\sim T) = -w_2$$

Unless war occurs or 1 wins outright, which, as noted in 2) does not depend on $|p_1 - p_2|$, some secret agreement will occur when $|p_1 - p_2| \geq 0$ (in a special case when $p_1 = p_2$ and $-w_2 \leq w_1$, it may or may not be accompanied by a public threat), that is, always. From A3, we know that the only condition that supports war in equilibrium and depends on $|p_1 - p_2|$ is $|p_1 - p_2| < w_1 + w_2$.

The above paragraph implies that H1.1 holds: if 1 offers a secret agreement, so will 1': $|p'_1 - p_2| > |p_1 - p_2| > w_1 + w_2$. H1.2 holds, since 1', for whom $|p'_1 - p_2| > w_1 + w_2$ will pursue a secret agreement, and 1, for whom $|p_1 - p_2| \leq w_1 + w_2$ will not.

We see that in all of the three cases, which exhaust the states of the world, H1.1 and H1.2 hold.

H2: Regimes with disparate valuations of public outcomes are more likely to publicly challenge each other than regimes with similar valuations.

The proof follows closely the above proof of H1. We present it less formally.

In 1) above, a public challenge only occurs when $p_1 - 2p_2 > 0$, that is, when the disparity between p_1 and p_2 is relatively large. The same is true in 2), where the condition for a public challenge is $|p_1 - p_2| > w_2$. In 3), no public challenge is possible only when $p_1 = p_2$. In all cases, H2 holds.

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