

# Learning to Consolidate Democracy

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## **Abstract**

Can actors learn to consolidate democracy? In this paper, we begin to address this question by comparing how actors in different contexts bargained during crises so that we may see whether or not they learned to resolve crises and reinforce democracy. We investigate actors' behavior in five types of countries: stable democracies (Italy and India), transitions to democracy (Mali and Portugal), unstable countries (Brazil, Bolivia, Ecuador, and the Philippines), transitions to autocracy (Indonesia and Myanmar), and stable autocracies (Ivory Coast and Zaire). Within these twelve countries, we identify forty-two political crises that occurred between 1950 and 1999. We construct a bargaining model designed to capture actors' behavior during crises that occurred in a single case - Italy. We then test the implications of this model in thirty-nine crises in our remaining eleven countries. We find that these crises were more likely to be resolved when actors learned to increase their offers during bargaining and that learning helps to strengthen democracy. In the future, we will extend this work in two ways. First, we will study more directly the effect of actors' behavior during crises on democratic consolidation. Second, we will examine whether actors learn not only within a single crisis but also across series of crises; that is, whether actors' behavior in previous crises influences them to resolve subsequent ones.

# Introduction

Can actors learn to consolidate democracy? In this paper, we begin to address this question by comparing how actors in different contexts bargained during crises so that we may see whether or not they learned to resolve crises and reinforce democracy.<sup>1</sup> We investigate actors' behavior in five types of countries: stable democracies (Italy and India), transitions to democracy (Mali and Portugal), unstable countries (Brazil, Bolivia, Ecuador, and the Philippines), transitions to autocracy (Indonesia and Myanmar), and stable autocracies (Ivory Coast and Zaire). Within these twelve countries, we identify forty-two political crises that occurred between 1950 and 1999. We construct a bargaining model designed to capture actors' behavior during crises that occurred in a single case - Italy. We then test the implications of this model in thirty-nine crises in our remaining eleven countries. We find that these crises were more likely to be resolved when actors learned to increase their offers during bargaining and that learning helps to strengthen democracy.

In the future, we will extend this work in two ways. First, we will study more directly the effect of actors' behavior during crises on democratic consolidation. Second, we will examine whether actors learn not only within a crisis but also across series of crises; that is, whether actors' behavior in previous crises influences them to resolve subsequent ones.

This paper proceeds as follows. First, we briefly review the literature regarding crises, democracy, and learning. Then, we explain how we selected our countries and crises. Third, we discuss the leverage that an analytic narrative approach offers to the study of democratization and present narratives for the series of crises in our first country, Italy. Fourth, we

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present a bargaining model based on actors' behavior in Italy and test hypotheses derived from this model in thirty-nine crises in the remaining eleven cases. Finally, we discuss the implications of our findings and our plans for future research.

## Learning to Consolidate Democracy

Can actors learn to consolidate democracy? This paper begins to answer this question by investigating how actors negotiated with each other during national crises. Were they able to learn from each other's actions so as to resolve the crisis? Dogan and Higley define crises as "abrupt and brutal challenges to the survival of the political regime" (1998, 6-7). We investigate actor behavior during crises for two reasons. First, crises offer an opportunity for one, or both, actors to work toward changing political institutions. Second, crises force actors to act: they must decide whether or not they support the status quo, such as particular policies or institutions. Thus, we are investigating whether actors can learn to negotiate with each other in the worst possible scenarios, when the government's institutions, and perhaps its very existence, are threatened; when cooperation will not be easy (or cannot be taken for granted); and when the decisions that actors make, regarding how to interact with each other, can affect whether democracy is reinforced or undermined.<sup>2</sup>

There are two types of crises we examine: mild crises (or crises within the system) and severe crises (or crises against the system). Mild crises can result from demands for changes within the system, such as when Brazilian labor unions called for national strikes in the 1980s and 1990s to pressure the government to rescind austerity measures (Keck 1989). Or, severe crises can arise when groups try to replace the government by force, such as in the Philippines when the democratic opposition and the military rebels tried to remove President Marcos from office in 1986 (Casper 1995). Regardless of whether the crisis is mild or severe, specific events include elections, strikes, demonstrations, corruption charges, terrorist

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<sup>2</sup>For an overview of the literature on crises, see Binder et al. (1977) and Peterson (1996).

activities, separatist movements, coup attempts, and weakening authoritarian regimes.

The ultimate goal of this research project is to understand whether actors can learn to consolidate democracy.<sup>3</sup> We define democracy as a government that is responsive to its citizens (Dahl 1971, 1), with rules that are accepted by the political actors (Przeworski 1991, 14). Democratic consolidation is reached when these rules become self-reinforcing: “when compliance - acting within the institutional framework - constitutes the equilibrium of the decentralized strategies of all the relevant political forces” (Przeworski 1991, 26). To the extent that actors prefer democracy over another type of regime, they will be willing to negotiate with each other to resolve crises in a way that distributes benefits to both sides, thus reinforcing democracy (Wood 2000, 214).

Likewise, democratic consolidation is more likely when actors agree to encapsulate conflict (Levine 1978) and continue to negotiate with each other even after a democratic government is installed (Casper and Taylor 1996). On the other hand, democratic collapse can result from extremists hindering negotiations between groups (Cohen 1994) or political leaders implementing policies to protect particular economic interests (Mahoney 2001).<sup>4</sup>

The occurrence of a crisis signals that a country’s condition is “acute” (Lebow 1981). Although a crisis can potentially destabilize a government, it is also an opportunity to strengthen that government’s institutions (Levine 1995, Casper and Taylor 1996). During a crisis, actors must decide whether they will choose to support or to change political policies and/or institutions. They may decide to install democracy, as occurred in Mali in 1993 (Smith 2001). Or, they may choose to reinforce a democracy already in place, as in Portugal when the government entered into negotiations with labor unions in the 1980s to end labor strikes (Bermeo 1990). However, it is also possible for actors to work to replace an existing democracy with an authoritarian regime, as happened in Myanmar in the 1960s when General Ne Win overthrew U Nu’s government (Steinberg 1981). Finally, actors may work to bar

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<sup>3</sup>For an overview of the democracy literature, see Huntington (1991), Remmer (1995), and Geddes (1999).

<sup>4</sup>For an overview of the literature on political elites, see O’Donnell and Schmitter (1986), Bermeo (1992) and Dogan and Higley (1998).

the emergence of democracy, as Mobutu Sese Seko tried in Zaire in the 1990s (O’Ballance 2001).

Crises entail a “sequence of interaction between actors” (Snyder and Diesing 1977) in “a noisy, dangerous, and unavoidable learning process” (Fearon 1992). The particular type of learning that we seek to identify is when and how an actor learns to cooperate with its opponent in order to reinforce democracy. Actors may learn to cooperate across time if repeated interaction leads actors to trust each other (Axelrod 1984). However, actors may decide to cooperate with each other even, or especially, if they do not trust each other (Levi 1998), for example if there is a chance that their power may decline in the future (Geddes 1994).

As actors negotiate with each other during a crisis, they are trying to gain information about their opponent. First, the actions that they take will depend in part on the type of opponent with whom they are bargaining. For example, if an actor wants to resolve a crisis quickly, she will need to know the kind of offer that her opponent would find acceptable. Second, she will want to know whether her opponent’s preferences are close or distant from her own, particularly regarding preferences for reinforcing democracy. Finally, if these actors have interacted with each other in the past, they may need to learn to rectify mistakes or avoid actions that they made during their previous negotiations so as to resolve the current crisis (Bermeo 1992, McCoy 2000).

Thus, learning occurs when actors “adapt their behavior in response to others’ behavior in an interactive decisionmaking environment” (Young 1998, 27). Fudenberg and Levine (1998) define a learning model as “any model that specifies the learning rules used by individual players, and examines their interaction when the game (or games) is played repeatedly.” There are a variety of learning behaviors, or rules, that exist, such as natural selection, imitation, reinforcement, and best reply (Young 1998, 27-28).

Our model adopts the best reply type of learning. The foundational assumption of best-reply learning is that actors base their actions on what they expect others to do. As Young

notes, “a particularly attractive feature of this framework is that it allows us to disentangle individuals’ preferences from their beliefs about the world” (Young 1998, 29). In the model we construct in this paper, preferences (what actors choose given their beliefs) remain fixed, but beliefs change as actors interact and learn from each other’s actions.

## Selecting Cases and Crises

In this paper, we investigate series of crises in twelve countries. These cases were selected to represent different types of countries (stable democracies, transitions to democracy, unstable countries, transitions to autocracy, and stable autocracies); to represent cases predicted by a statistical model employing socioeconomic and institutional variables, as well as cases not predicted by the model; and to represent different regions of the world. The cases used in this paper are: Bolivia (unstable unpredicted case), Brazil (unstable unpredicted), Ecuador (unstable predicted), India (unpredicted stable democracy), Indonesia (unpredicted switch to autocracy), Italy (predicted stable democracy), Ivory Coast (unpredicted stable autocracy), Mali (predicted transition to democracy), Myanmar (predicted switch to autocracy), the Philippines (unstable unpredicted), Portugal (unpredicted transition to democracy), and Zaire (predicted stable autocracy).

The cases selected for this paper are a subset of a set of countries identified for a larger study of democratization. The statistical model used to identify whether countries were predicted or unpredicted types is discussed in detail elsewhere (see Casper and Tufis 2003a). The robustness of coding a country as predicted versus unpredicted was double-checked by comparing the results using three different measures of democracy: Polity IV, Polyarchy, and Freedom House; all three measures coded these cases similarly (Casper and Tufis 2003b).

We used four types of events (Banks 1999) to represent mild and severe crises. Mild crises include riots and anti-government demonstrations, while revolutions and guerrilla warfare are coded as severe crises. The crises events were identified by using *Keesing’s Contemporary*

*Archives* (1950-1986) and *Keesing's Record of the World* (1987-1999). (We used this source because it identified specific dates, actors, and actors' demands across the crises.) A dataset was created for each country in our sample, identifying and describing instances of mild and severe crises from 1950-1999. (For cases that were not independent in 1950, the country's dataset begins with events from the year of independence.) To capture cooperative moves, the dataset also includes events such as pacts, truces, cease-fires, and agreements.

Once the crises events were collected, they were then grouped to form series of crises. Individual crisis events were grouped into a series if they shared similar actors and goals. For the twelve cases selected for the larger project, 319 crises were grouped into 42 series of crises. Then, we constructed a case study for each series of crises. The descriptions of events from Keesing's were verified and expanded by consulting sources systematically applied to all of our cases (such as Facts on File), regional sources (such as *Africa Contemporary Record* and *Asian Survey*), and country-specific sources (such as articles and books that focused on the corruption trials in Italy or the transition to democracy in Zaire). Finally, the events were double-checked using on-line databases (such as the *New York Times* and *Lexis-Nexis*).

The information contained in the case studies was expanded and coded to create two additional files for each series of crises. The Actors files present a background for each series of crises (to specify the context of the conflict); identify the two actors that constitute the government and the opposition; and specify each actor's preference ordering for the outcome of the crisis and constraints on their actions (or strategies that they can choose to play). The Moves files fine-tuned the Actors files by identifying the alternating offers that each actor made across each series of crises. Thus, a Moves file includes the sequence of interaction, the strategy each actor played, and the outcome of the crisis.<sup>5</sup> In the next section, we discuss the advantages of using an analytic narratives approach and present our narratives for the

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<sup>5</sup>In this paper, we only consider bargaining between the government and an opposition group(s) and do not consider bargaining within government or among opposition groups. Therefore, when considering whether an offer was accepted or rejected by more than one opposition group, we count an offer as accepted or rejected only if all of the opposition groups act in concert with one another.



three crises in Italy.

## Analytic Narratives

To examine how learning can help elites reinforce democracy, we adopted an analytic narrative approach. An analytic narrative “combines analytic tools that are commonly employed in economics and political science with the narrative form, which is more commonly employed in history” (Bates, Greif, Levi, Rosenthal, and Weingast 1998, 10). Constructing an analytic narrative involves creating a narrative or case study of the question under examination and then creating an analytic (formal) model which explains the narrative. The analytic narrative approach allowed us to analyze contextually rich accounts of each crisis using formal and explicit reasoning (Bates et. al. 1998, 10). For each crisis we constructed a narrative in which we identified the actors in the crisis, their preferred outcomes, the constraints on the strategies they could employ, and the interaction that took place during the crisis.

Once we had completed a narrative for each crisis, we then constructed a game-theoretic bargaining model to focus our analysis on the sequence of strategic interaction between the actors. We selected an extensive form game to follow explicitly the actors’ offers as the crises unfolded and to capture the role of uncertainty. If we have assembled a “valid representation of the story, then the equilibrium of the model should imply the outcome we describe” (Bates et. al. 1998, 12).

While we used an analytic narrative as the starting point of our research, we then extended this approach by building our bargaining model on a single country, deriving hypotheses from this case, and then testing the hypotheses in other cases. To understand how elite interaction reinforces democracy, we built analytic narratives to explain three crises experienced by a stable democracy, Italy. Then, we tested the implications of our model in thirty-nine crises in our eleven additional cases.

The goal of this paper is to identify the pattern of elite interaction that reinforces democ-

racy. To do this, we investigate how actors behaved during crises in a stable democracy, post-World War II Italy, paying particular attention to the emergence of cooperation among actors, such as their willingness to negotiate or to make offers that signal a commitment to resolve the crisis peacefully. In addition, we check whether actors learned to cooperate with each other as the crisis unfolded and they received more information regarding their opponent's preferences and constraints. After identifying patterns in Italy, we examine whether these patterns were present (or absent) in the other eleven countries. The next section introduces the crises in Italy.

## The Case of Italy

Italy is an example of a stable democracy. Following World War II, Italy reinstalled a democratic government and succeeded in consolidating its democratic institutions.<sup>6</sup> Italy was able to strengthen its democratic institutions by surviving numerous severe challenges. Mershon notes that “almost no government managed to stay in office for more than a few years, and many governments collapsed after only a few months.” (2002, 2). Thus, although numerous governments and coalitions collapsed, the democratic system in Italy remained in place. We selected Italy as the case on which to build our model to facilitate comparison to other cases. This allows us to examine how elites bargained with each other to resolve crises and how bargaining helped elites strengthen the democratic system.

We identified three crises that threatened Italy's democratic institutions. Specifically, Italy experienced one crisis where a non-governmental actor was trying to overthrow the political system and two crises where the actors were working within the political system

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<sup>6</sup>During the period studied in this project, 1950-1999, the Polity IV scores for Italy are consistently above the threshold for democracy. Furthermore, the Italian government satisfies both dimensions of democratic consolidation; stability and deepening (Schedler 1998; Gasiorowski and Power 1998), as its democratic government has lasted for over twelve years and its Freedom House scores for political rights and civil liberties consistently fall in the “free” category. The standard cut-off point on the Polity IV democracy scale is a 6. For a discussion of different cut-off points used in studying democracies and autocracies, see Gates et. al. (2003) and Bennett (2002).

to achieve change. These three series of crises were the rise of terrorism, beginning in the late 1960s; the corruption cases in the 1990s; and demands for autonomy by the Northern League, beginning in the 1980s. To conduct our examination of Italy we examined each crisis and constructed an analytic narrative to identify the bargaining patterns in Italy that led to a stable democratic system. For each crisis, we created a brief summary of the issue, stated the preferences of the actors, and outlined the sequence of interactions and the outcome of the crisis.

## **Terrorism**

The level of violence in Italian political life increased significantly by the late 1960s due to terrorist acts carried out by extremist “action groups” on the left and the right of the political spectrum. Members of these groups engaged in a variety of activities: “assassinations, kidnappings, shootings in broad daylight, bombings, gun battles with police, beatings with chains and metal clubs, the sacking of political party offices - more than 14,580 acts of political violence” (Meade 1990, xxi). Two of the most shocking acts of terrorism were the kidnapping and murder of former Prime Minister Aldo Moro and the bombing of the Bologna train station. “So great was the turmoil that many citizens wondered whether what seemed a fragile Republic could survive, and those with long memories worried that a corpse from an even more dreadful past might spring up, reanimated, from the grave” (Meade 1990, xxi).

There are two actors in the terrorism crisis: the government (led by the Christian Democrats) and the terrorist groups. The government’s most preferred outcome during this crisis was to maintain the status quo, or continuation of the Italian democratic system. However, the goal of the terrorist groups was to overthrow the Italian state. Table 1 presents each actor’s preference list and their constraints.

(Table 1 about here.)

The terrorism crisis began in 1969 with the escalation of violence in Italian political life. The Italian “public - which in 1967 and 1968 frequently heard only of the actions of

unnamed ‘contesters,’ ‘anarchists,’ and ‘Maoists’ - now found the press full of reports of a variety of new organizations, each with a threatening title and revolutionary goals” (Tarrow 1989, 231). The right-wing groups included Young Italy, Youth’s Front, National Vanguard, Black Order, and the Mussolini Action Team; those on the left included the Red Brigades, the Manifesto group, Continuous Battle, and the Partisan Action Groups (Keesing’s 1974, 26410; Facts on File 1971, 338). While these groups directed their attacks against the Italian state, they targeted not only legislators and executive officials but also members of the business community and journalists. Their actions “resulted in hundreds of deaths, including that of a former prime minister, thousands injured, including a pope, and still more thousands in prison for having committed violence” (Weinberg and Eubanks 1987, 6).

The interactions between the government and the terrorist groups unfolded in the following manner. Two of the most serious terrorist attacks in Italy occurred in 1974, when a bomb exploded during an anti-fascist demonstration (killing eight people and injuring ninety-five) and a second bomb exploded on a train near Bologna (killing twelve and injuring forty-eight people) (Keesing’s 1974, 26820; Facts on File 1974, 485). Also in 1974, the Red Brigades adopted more violent tactics and targeted more visible political figures: they kidnapped over eighty people, including Mario Sossi, a Genoan magistrate (Keesing’s 1974, 26820; Facts on File 1974, 485; Caselli and della Porta 1991, 83). The Italian government responded to the terrorist acts by creating a new government office (central inspectorate) to coordinate the anti-terrorism efforts implemented by several government agencies, and by passing new legislation that increased police powers and extended anti-Mafia laws to cover terrorist activities (Facts on File 1974, 486; Keesing’s 1975, 27411; Facts on File 1975, 443). However, these actions did not lead to a decline in terrorist activities: in January 1977, Prime Minister Giulio Andreotti announced in parliament that the number of political crimes had doubled in 1976 (Keesing’s 1977, 28493). As mentioned above, former Prime Minister Aldo Moro was kidnapped and killed in 1978 (Keesing’s 1978, 29053-29055). During this same period, the Red Brigade killed members of the police, magistrates, and prison guards; engaged in arson;

and used bombings to sabotage industries and the railway system (Keesing's 1979, 29687-29688; Facts on File 1978, 453). On December 15, 1979, the government introduced a series of anti-terrorist decrees that further increased the power of government agencies to counter terrorist groups (Keesing's 1980, 30342; Facts on File 1979, 995). However, the terrorist groups responded by bombing the Bologna train station on August 2, 1980, killing 84 people and wounding 195 (Keesing's 1980, 30522; Facts on File 1980, 604-5; Bologna Station Blast 1980). The following year, the Red Brigades kidnapped General James Dozier, a staff officer in the United States army (Facts on File 1981, 260). The terrorist crisis was unresolved: although the Italian state always adopted a policy of non-negotiation and a harsh approach to fighting the groups, it was ineffectual in stopping the terrorist attacks.<sup>7</sup>

## Corruption

The corruption crisis in Italy is “a story of how a collection of short-sighted, profit-mongering capitalists in the sheltered sectors of Italian small industry brought down one of the world's stablest, most long-lived dominant-party democracies, one presided over by a centrist coalition sympathetic to the interests of business but that relied in part on monies extracted from illegal gains” (Golden 2002). Prior to the 1990s, a stable and mutually beneficial system of corruption emerged whereby members of the business community were awarded government contracts in exchange for giving politicians bribes and kickbacks. This system began to unravel in the 1980s, when politicians began to demand higher prices for the contracts that businesses were less able to afford because of deepening economic stagnation (Burnett and Mantovani 1998; Bufacchi and Burgess 1998). The government's investigation of the corruption, labeled as Operation Clean Hands, “is best understood as the eruption of a regime crisis” (McCarthy 1995, 4).

There are two actors in the corruption crisis: the supporters of the Clean Hands inves-

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<sup>7</sup>We consider a crisis to be resolved when the issue in dispute has ended. In the case of terrorism in Italy, the terrorist attacks continued despite the government's actions (Willian 2004, Horowitz 2004). Because the issue of terrorism continues through the end of the data collection, we code this case as an unresolved crisis.

tigation and the opponents of the investigation. The supporters included magistrates and legislators. Their most preferred outcome was to introduce transparency into the political system by uncovering corruption. The legislators who opposed the investigation most preferred that the system of corruption remain in place, allowing them to continue to receive bribes and to escape punishment (McCarthy 1995). Table 2 presents each actor’s preferences and their constraints.

(Table 2 about here.)

The corruption crisis began on February 17, 1992 with the arrest of a Milanese Socialist city councilor for accepting a small bribe (della Porta and Vannucci 1999). The investigation discovered that businesses had been paying bribes on the order of 3,400 billion lire annually and that these funds had been used to support party rather than individual interests (Rhodes 1997, 22). The “auctions formed part of a system without which the political order, as it existed from the 1950s and 1960s, could not survive” (McCarthy 1995, 2).

The interactions between the actors unfolded in the following manner. The supporters (magistrates) began to investigate corruption charges, escalating their scope of inquiry from local governments to cabinet ministers and former Prime Minister Bettino Craxi (Keesing’s 1993, R114; Keesing’s 1993, 39337-39338). The opponents countered by proposing legislation “decriminalizing the illegal financing of political parties with retroactive effect” (Keesing’s 1993, 39386). The supporters responded by refusing to sign the bill and increasing the number of politicians arrested for corruption (Keesing’s 1993, 39386). The focus of the arrests increased over time from city councilors to the highest reaches of government. In reaction to mass public demands, via a referendum, the supporters implemented political reforms: creating new political parties, redesigning political coalitions, changing the electoral system to allow for greater accountability, and abolishing immunity for individual politicians charged with corruption (Keesing’s 1993, 39430-39431; Cowell 1993; Keesing’s 1993, 39480). Eventually, the opponents accepted the political reforms. However, the corruption investigation was unresolved as Prime Minister Silvio Berlusconi and former Prime Minister Giulio Andreotti

were acquitted of the most serious charges, and former Prime Minister Craxi was allowed to return to Italy without threat of arrest (Keesing's 1999, 432230). The original four-party coalition, headed by the Christian Democrats, collapsed during the crisis and was replaced by a coalition headed by Berlusconi's Forza Italia.<sup>8</sup>

## Northern League

The rapid industrialization following World War II led to uneven development across Italy, with living standards in northern Italy surpassing those in the South. The popular perception was that northerners were more industrious than their southern compatriots and that "the local economy developed despite the Italian government, not because of it" (Tambini 2001, 27). In addition, northerners believed that the South "was living off the charity of the North instead of paying its own way. The North's taxes were being directed into the pockets of the Mafia and other criminal gangs who provided the parties of government with political support in many parts of the South" (Bull and Gilbert 2001, 14). During this period, the differences between the northern and southern regions of Italy led to a competition between the two regions for government resources, with the North growing increasingly weary of the idea of continuous state assistance to the South. It is within this context that the Northern League emerged in the 1980s to represent the interests of northern Italy.

There are two actors in this crisis: the Berlusconi government and the Northern League. The government was a coalition led by the Forza Italia. The government's most preferred outcome was the status quo: to retain legal authority over the entire territory of Italy. The Northern League's most preferred outcome was to establish an independent state in northern Italy (Bull 2000, Gilbert 1995). Table 3 presents each actor's preferences and their constraints.

(Table 3 about here.)

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<sup>8</sup>Investigations into corruption charges against Prime Minister Silvio Berlusconi continued after 1999; these investigations were ongoing as of April 2004 (Horowitz 2004).

Umberto Bossi formed the Northern League in March 1982. During the 1980s, the group did not attract widespread support, in part because it was unclear to people whether the Northern League was a political party, a protest movement, or an anti-immigrant movement (Tambini 2001). However, the corruption crisis in the 1990s significantly weakened traditional political parties, thus creating an opening for the Northern League to increase its membership and expand its influence. The League won its first municipal council elections in December 1992 (Keesing's 1993, 39338). In June 1993, its candidate won the Milan mayoral election with 57% of the vote (Keesing's 1993, 39529); by November, it had consolidated its position as the largest party in northern Italy (Keesing's 1993, 39751). When the Christian Democratic government resigned, due to the corruption crisis, the Northern League worked to gain power at the national level, to implement its demand for northern autonomy and, eventually, independence.

The first interaction between the government and the Northern League concerned the creation of a new coalition in 1994 to replace the Christian Democratic-led coalition government. The Northern League initially refused to support Silvio Berlusconi as prime minister but eventually agreed to join the Forza Italia coalition government in exchange for six cabinet positions (including the Interior and Regional Affairs seats) and a promise to increase regional autonomy (Keesing's 1994, 40021). In December 1994, the Northern League withdrew its support from the coalition, forcing Berlusconi to resign. As the government began to address some of the issues raised by the Northern League, such as announcing discussions to reform the constitution along federal lines, the League increased its demands from federalism to separatism, by announcing the Independent Republic of Padania (Keesing's 1996, 41104; Bohlen 1996; Keesing's 1996, 41289-41290). This radical platform, though, was not supported by the League's members. As the Northern League lost elections from 1997-1999, its influence dropped and its Republic was never recognized. This crisis was resolved.

In this section, we explained our approach of using an analytic narrative built on one case (Italy) to derive hypotheses regarding elite behavior that we will test in eleven additional



cases. We introduced the three crises that Italy experienced to see how the actors bargained with each other to try to resolve the crises. In the next section we develop a bargaining model to capture the sequence of interactions among Italian elites during the crises detailed above.

## **A Bargaining Model with Learning**

Following its transition to democracy, a government has already enacted some democratic reforms that provide at least some groups with the benefits of democracy. These democratic reforms then evolve according to the outcome of bargaining between the government and an opposition group(s). This process allows actors (leaders in the government or the opposition group(s)) to learn about each others' preferences for various democratic rules or institutions. Finally, democracy is reinforced when beliefs about the preferences of actors converge.

Democratic consolidation is the period during which a country's democratic institutions are reinforced or strengthened. During this period actors have a common interest in strengthening the institutions that will ensure that the democracy persists. However, while actors have a common interest in strengthening the democratic institutions already installed they can disagree over the structure of those institutions.

The process of reinforcing democracy is analogous to a bargaining situation where actors bargain over the democratic institutions that will reinforce democracy. Muthoo defines a bargaining situation as "a situation in which two or more players have a common interest to cooperate, but have conflicting interests over exactly how to cooperate" (2000, 146). In a bargaining situation each player would like to reach an agreement but would like the agreement to be closer to their most preferred outcome. Thus, while actors have a common interest in strengthening the democracy they have divergent interests regarding the structure of the institutions that will strengthen the democracy.

Actors prefer to see the institutions strengthened in a way that reinforces democracy but

that also provides relatively more benefits to the group(s) they represent. As a result of this desire it is possible for actors to delay agreement in order to obtain an outcome that is closer to their most preferred outcome. In addition, if there is incomplete information regarding the preferences for various democratic institutions, then actors have an incentive to misrepresent their most preferred outcome in order to obtain a better deal during bargaining.

In a previous section, we discussed the analytic narrative approach and its use of game theory (particularly, extensive form games) to construct a model that accurately represents the narrative. A bargaining model is a type of extensive form game that allows us to capture the history of interactions, offers that were accepted and rejected, and the uncertainty present during interactions between the government and an opposition group(s). While a bargaining model imposes a structure on the interactions between players (i.e. players are forced to make offers and have only the ability to accept or reject them), we believe this structure captures the interactions between players during a country's democratization process. Conceptualizing the process of reinforcing democracy as a bargaining process provides insight into the three crises that occurred in Italy following World War II.

When the structure of interactions is sequential, not simultaneous, an extensive form game is the common structure employed (Gates and Humes 1997). There are several additional benefits of using an extensive form game: the sequence of play receives explicit portrayal, various levels of information can be considered, information can be revealed as play evolves, actors are allowed to alter their beliefs by learning and incorporating the revelation of information into future play (Gates and Humes 1997).

We analyze a two-period bargaining model in which an opposition ( $R$ ) has private information about her reservation value and a government ( $G$ ) makes all of the offers. In the model, two players,  $G$  and  $R$  bargain over the design of the country's democratic institutions ( $b$ ) (where  $b \in [0, 1]$ ) according to the following procedure. In the first period  $G$  makes an offer  $1 - b_1$  to  $R$ , where  $1 - b_1$  is the share of the agreement which  $G$  gives to  $R$ .  $G$ 's offer is a proposal for the design of the country's democratic institutions. If  $R$  accepts the offer then

agreement is struck and the system is constructed such that the payoffs to  $G$  and  $R$  are  $b_1$  and  $1 - b_1$  respectively. If  $R$  rejects the offer, then bargaining continues to the second period in which  $G$  makes a second offer. If  $R$  accepts the offer, then agreement is struck and the payoffs to  $G$  and  $R$  are  $b_2$  and  $1 - b_2$  respectively. If  $R$  rejects the offer then  $G$  and  $R$  each receive a payoff of zero. The set of all possible agreements  $B = \{(b, 1-b) \in [0,1] : b + (1-b) = 1\}$ .

In the model we make several assumptions. First, we assume  $G$  is asymmetrically informed about  $R$ 's reservation value;  $R$  has complete information about  $G$ , but  $G$  does not have complete information about  $R$ .<sup>9</sup> Thus,  $R$  knows its own type and  $G$ 's type, but  $G$  only knows its own type. Second, we assume that there are two types of opposition,  $R_L$  and  $R_H$ , where  $0 < R_L < R_H < 1$ .<sup>10</sup> These types are distinguished by their respective reservation values, that is, their respective minimum acceptable agreements (Raiffa 1982). The type of opposition with a low reservation value,  $R_L$ , is unwilling to delay agreement in order to obtain an agreement closer to its ideal point. Instead, it is prepared to settle for an outcome farther away from her ideal point without suffering the costs of delay. In contrast, the type of opposition with a high reservation value,  $R_H$ , is willing to delay agreement in order to obtain an agreement closer to her ideal point. Prior to bargaining, Nature assigns a type to  $R$  and  $G$ 's prior beliefs are that  $R$  is type  $R_H$  with probability  $(\alpha)$  and type  $R_L$  with probability  $(1 - \alpha)$ . Though in practice there is two-sided incomplete information, it is reasonable to assume that the opposition has additional information about government leaders from past performance in crises against other opposition groups, and thus the opposition is better informed about the government it is facing. In contrast, the government has less information about the type of opposition group it is facing.

In the model the uninformed player,  $G$ , makes all of the offers.<sup>11</sup>  $G$  updates its beliefs

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<sup>9</sup>In the model with complete information (not presented)  $G$  offers  $R_H$  or  $R_L$ , depending on the type  $G$  is playing, its reservation value in the first period. This offer is accepted and the game ends without delay.

<sup>10</sup>We restrict the possible types of opposition to two in order to begin with the simplest model. However, there is an underlying continuum of types, since the opposition's type is determined by the opposition's reservation price which can be located anywhere on the real number line bounded between zero and one.

<sup>11</sup>We adopt the standard approach in bargaining models with one-sided incomplete information, allowing only the uninformed actor to make offers. Powell (2002, fn. 16) notes that bargaining models in which offers

regarding the type of  $R$  it is facing based on whether its first offer was accepted or rejected.<sup>12</sup> Thus,  $G$  updates its beliefs based on strategic interaction with  $R$ .

We also assume that  $G$  and  $R$  have a common fixed discount factor  $\delta$  where  $(\delta \in (0, 1))$ .

The equilibrium concept we use to solve this game is Bayesian Nash Equilibria (BNE) (Gibbons 1992). In this paper we focus on separating equilibrium because we are interested in examining the learning that occurs during crises.<sup>13</sup> Pooling equilibria provide no information on whether learning occurs nor purchase on prediction.

**Proposition 1.** There is a BNE in which  $G$  and  $R$  reach agreement. In the first period  $G$  makes an offer which is equal to the reservation value of  $R_L$  which  $R_L$  accepts. If this offer is rejected then  $G$  updates its belief about the type of  $R$  it is facing and makes a second period offer which is equal to the reservation value of  $R_H$  which  $R_H$  accepts.

The formal proof of this proposition is presented in the appendix. Here we briefly describe the intuition behind this equilibrium. The government prefers to obtain a successful resolution to the crisis, since such a resolution provides the government with a higher payoff than no agreement. Since the government prefers to obtain a successful resolution, the government needs to determine what offer will allow it to bring about a successful resolution of the crisis. However, the government also prefers to give up only the smallest amount that will be acceptable to the opposition. This incentive encourages the government to find the opposition's minimum acceptable offer. Since the government only knows probabilistically the type of opponent it is facing, the best strategy the government can follow is to make a first period offer that only the low type of opposition will accept. If the first period offer is rejected, the government knows that it is facing a high type opposition and can then adjust its second offer so that it will be acceptable to the opposition. This brings about a successful

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are made by the actor with private information often have an overabundance of equilibria.

<sup>12</sup>Future work will incorporate a move where each actor is evaluated by its constituents. This extension will allow  $G$  to update its belief based on two sources of information: the negotiating table and public support.

<sup>13</sup>This is not to say that pooling, partially-pooling, and semi-separating equilibria do not exist, only that we do not focus on these equilibria in this paper.

resolution of the crisis.

In this section we presented a bargaining model of the crises that occur during a country's consolidation period. We introduced a proposition that provides insight into the interaction between a government and opposition during a particular crisis. In the next section we present the hypothesis derived from the bargaining model; this hypothesis will then be tested in thirty-nine crises in eleven countries.

## Model Evaluation and Hypothesis Testing

In this section we translate the proposition from the bargaining model based on the Italy case into a hypothesis which can be tested with our additional cases. In order to determine if the bargaining model was constructed correctly, we must examine whether the model produces results which accurately reflect the outcomes of the crises in Italy. Thus, we must test the following hypothesis.

*Hypothesis 1:* Crises are more likely to be resolved if governments learn about the type of opponent they are facing.

In the bargaining model presented above, both the government and the opposition prefer to strike a bargain, since a successfully resolved crisis provides both sides with a larger payoff than an unresolved crisis. However, both the government and the opposition would like for the settlement to be closer to their respective ideal points; that is to say, the actors want to obtain the largest portion of the bargain as possible. For the opposition, this incentive means that the opposition should follow the equilibrium strategy and accept offers according to their respective reservation prices. In terms of the government, in order to obtain a higher payoff, the government wants to avoid giving a larger offer to its opponent when its opponent is willing to accept less. This scenario provides an incentive for the government to “screen” the opposition and force the two types to pursue separate strategies. This is achieved by making a first period offer that only low types accept and making a second period offer that

high types accept. In order to confirm the accuracy of our model, we next examine whether the outcomes of the crises in Italy are produced by the bargaining model.

In the terrorism crisis, the government, led by the Christian Democrats, screened the terrorist groups seeking to overthrow the democratically elected government.<sup>14</sup> Throughout the crisis, the government offered no concessions to the terrorist groups and instead enacted legislation which increased the penalties for terrorist activities, increased police efforts in general, and arrested, tried and jailed members of terrorist organizations. These measures did not convince the terrorist groups to end their campaign of violence, who in a sense rejected the government's offer. As the terrorist acts continued the government acquired information about the type of terrorist group it was facing. Yet despite this learning the government refused to move from its ideal point. In this case, the government was learning, but any concessions might have led to the replacement of the democratic regime with an authoritarian regime. Since this crisis is unresolved, it conforms to the predictions from the bargaining model.

In the Northern League crisis, if the Berlusconi government had not screened the Northern League, then the government might have offered more autonomy to the Northern League than was necessary for the crisis to be successfully resolved (such as granting the North independence). However, the Berlusconi government initially made few concessions to the Northern League, who in turn rejected that initial offer. The Berlusconi government then updated its belief about the Northern League and made a second offer that was accepted by the Northern League. In this case the Berlusconi government made some concessions, but not as many as it might have if it had not screened the Northern League to determine its type.

In the corruption crisis, the magistrates and legislators who supported the Clean Hands Investigation did screen the legislators who opposed the investigation and instead of in-

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<sup>14</sup>We cite the name of the government or groups within the government if the crisis occurred during one specific government. However, if the crisis spans across multiple governments we label the actors as a generic government.

creasing their offer to converge to the demands of the opponents of the investigation, the supporters of the Clean Hands investigation began investigating low level government officials, increasing the profile of the investigations as time passed. Thus the supporters of the Clean Hands investigation did not budge from their ideal point; that is, they were not willing to concede anything. Despite the fact that during the investigation the supporters of the investigation were learning, they chose not to make a subsequent offer acceptable to the opponents of the investigation. However, if we think of reinforcing democracy as a bargaining process, in this case an increased offer by the supporters of the investigation might signal that corruption would not be seriously investigated. This course of action would serve only to thwart democratic advancement.

In this section of our paper we presented the main hypothesis derived from our bargaining model based on elite interactions during three crises in Italy. In all three crises the government learned about the type of opposition it was facing based on the actions of the respective opposition groups. In all of the crises the government updated its belief about the type of opposition it was facing, but only one of the crises (the Northern League crisis) was successfully resolved. In the other two crises, terrorism and corruption, the government did not offer any concessions to the respective opposition groups and those crises were not successfully resolved. However, in these cases, the fact that the government was unwilling to make concessions strengthened the democratic institutions in Italy.

Our model accurately forecasts that there would not be a successful resolution of the terrorism and corruption crises, but that the Northern League crisis would be resolved successfully. Thus, evidence from the Italian crises indicates that our model successfully predicts the outcomes of all three Italian cases. In order to examine the robustness of our model, in the next section we test our hypothesis against thirty-nine additional crises from eleven different countries.

## Crises in Eleven Countries

Once we derived the hypothesis from the bargaining model and confirmed that our model accurately captured the outcomes in the Italy case, we next tested it in thirty-nine crises that occurred in our remaining eleven countries. Previously, we tested our model using comparative case studies for six crises in five countries (Casper and Joyce 2004). In this paper we seek to conduct a more robust examination and therefore carry out preliminary statistical analysis of the hypothesis presented above. In order to perform hypothesis testing we constructed variables based directly on the components of the bargaining model. To create these variables, we first examined each crisis and tested the hypothesis using comparative case studies (not presented). Next, we used the qualitative evidence to determine the numerical value for each of the variables. Specifically, we created a binary variable for each of the bargaining components listed below:

*Government's first offer*: If the government's first offer made some concessions to the opposition, the variable was coded as 1 (0, otherwise).

*Government's first offer rejected*: If the government's first offer was rejected by the opposition, the variable was coded as 1 (0, otherwise).

*Government's second offer*: If the government's second offer was greater than the government's first offer, the variable was coded as 1 (0, otherwise).

*Government's second offer accepted*: If the government's second offer was accepted by the opposition, the variable was coded as 1 (0, otherwise).

In addition to the variables listed above, we constructed two measures to capture crisis resolution and learning.

*Crisis resolution*: If the government's first or second offer was accepted by the opposition, the variable is coded as 1 (0, otherwise)

*Learning*: If government's first offer was rejected and the government's second offer was subsequently greater than its first offer, the variable was coded as 1 (0, otherwise).



Before proceeding to the statistical analysis, we present two illustrative cases. The first crisis, involving Indira Gandhi in India, is an example of actors learning to cooperate in order to reinforce democracy. The second crisis, concerning Aung San Suu Kyi in Myanmar, shows a case in which actors were unable to cooperate, and democracy was not installed.<sup>15</sup>

*India: Indira Gandhi Crisis*

India is a case of an unpredicted stable democracy; as such, it is a good case to test the hypothesis derived from the Italy case (which in contrast was a predicted stable democracy). The election of Indira Gandhi in 1975 is an example of a crisis where the actors were bargaining within the political system to advance change.

In this crisis, there were two primary actors: the Indira Gandhi government and opposition political parties. The first preference of Indira Gandhi was to remain in power. On the other hand, opposition political parties wanted to force Indira Gandhi out of office. Using the preferences of the opposition political parties, we can infer that an opposition with a low reservation price would be willing to allow Indira Gandhi to remain in power, while opposition political parties with a high reservation price would prefer to suffer costs in order to demonstrate the intensity of their preference for forcing Indira Gandhi out of power. Table 4 lists each actor's preferences and constraints.

(Table 4 about here.)

*Hypothesis 1 (supported):* Indira Gandhi was initially unwilling to give any concessions to the opposition. Instead of negotiating with the opposition, the government restricted individual liberties, banned opposition political parties, and arrested opposition supporters. Thus, the initial offer of the government was very small, and this offer was rejected by the opposition. However, after an election brought an opposition party into power, Indira Gandhi offered to resign, thus conceding to nearly all of the opposition's demands. Despite the fact

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<sup>15</sup>In the interest of space, in this paper we present only these two illustrative crises. For information regarding all forty-two crises across the twelve countries, see "Additional Tables for 'Learning to Consolidate Democracy' " on the first author's webpage (<http://polisci.la.psu.edu>). This file presents crises summaries, actors, preferences, and constraints for all of our cases.

that Indira Gandhi's resignation was not accepted, a subsequent government removed her from her position in Congress and placed her under arrest, thus facilitating a successful resolution of the crisis (Thomas 1996, Jalal 1995, Kamm 1977).

We may interpret this crisis as follows: Indira Gandhi was uncertain about the type of opposition political parties she was facing. However, after her initial offer was rejected, she updated her beliefs about her opponent's type and adjusted her offer to one that was acceptable to the opposition political parties but that still provided her with some payoff. Even though her payoff may have been small, it was not zero; she retained some political capital. As a result of this learning, there was a successful resolution of the crisis. Note that the payoff Indira Gandhi received at the end of the crisis was not her preferred outcome. In contrast, if there was complete information and Indira Gandhi knew with certainty the type of opposition she was up against, an initial bargain might have been constructed with the opposition political parties that would have allowed her to remain in power. The absence of complete information on the part of the government, however, provided the government with an incentive to extend an initially smaller offer (in order to screen its opponent) than it might have if the government had been privy to complete information about the reservation prices of opposition political parties.

#### *Myanmar: Aung San Suu Kyi Crisis*

Myanmar is a case of a predicted transition from democracy to autocracy. This case offers a contrast to the India case, discussed above, in that it is an example of a failure to reinforce democracy. In this crisis, which we labeled after Aung San Suu Kyi, the opposition (primarily the National League for Democracy, NLD) was working outside the political system to try to replace the authoritarian military regime with a democratic government.

There were two actors in this crisis: the military regime and the NLD. The military regime's first preference was to avoid making concessions to the NLD. However, the NLD's most preferred outcome was the restoration of democracy. Using the actors' preferences, we can infer that an NLD with a low reservation price would accede if the military regime

refused to offer any concessions. On the other hand, an opposition with a high reservation price would continue to work for democracy even if such behavior incurred high costs (such as imprisonment). Table 5 lists each actor's preferences and constraints.

(Table 5 about here.)

*Hypothesis 1 (supported):* The military regime's first concession was a small one - it offered to talk with the NLD. While Aung San Suu Kyi suggested that she might consider abandoning politics, she eventually said that it was unlikely that the talks would produce an agreement. The military regime lifted the restriction on NLD leaders, including Aung San Suu Kyi. However, as the crisis moved closer to being resolved, the military regime did not increase concessions to the NLD. Rather, it escalated its harassment of the opposition (e.g. by imprisoning NLD leaders, placing Aung San Suu Kyi back under house arrest, and barricading her house to stop her from making anti-regime speeches from her house). For its part, the NLD called for a boycott of the military regime's constitutional convention, announced it would draft an alternate constitution, called for anti-regime demonstrations, and declared that the regime's laws were unconstitutional. This crisis was unresolved, as of 1999, as the regime re-imprisoned NLD leaders and Aung San Suu Kyi continued to speak out against the regime (Callahan 1995, Guyot 1997, Fink 2001).

In this case the military regime was uncertain about Aung San Suu Kyi's type. The military regime made some initial concessions which were accepted by Aung San Suu Kyi. However, following the initial compromises the military regime stopped offering any concessions. In turn, Aung San Suu Kyi refused to accept the military regime's subsequent offers which lead to her house arrest. Even though learning occurred in this case, this learning did not translate into further concessions on the part of the military regime or the opposition. As a result even though learning took place the fact that this learning did not lead to further concessions on either side would lead us to believe that the crisis would be unresolved.

### Statistical Analysis

In this section we conduct preliminary statistical analysis of our hypothesis, as well as

an additional test to examine the relationship between learning and reinforcing democracy. These tests are necessarily preliminary and should be interpreted as such. The primary purpose of the statistical analysis is simply to determine whether a statistical relationship exists between learning and crisis resolution on the one hand, and between learning and reinforcing democracy on the other.

In order to examine the effect of learning on crisis resolution we conducted bivariate analysis, using crosstabulation, between learning and crisis resolution. The results, presented in Table 6, indicate that we can reject the null hypothesis that there is no relationship between learning and crisis resolution; therefore we can conclude that there is a statistical association between learning and crisis resolution. One drawback with using crosstabulation, of course, is that we cannot assess the substantive importance of this relationship.

(Table 6 about here.)

Our second test examines the statistical relationship between learning and reinforcing democracy. In order to conduct this test we created a measure of reinforcing democracy. This measure captures changes in the democratic institutions in a country from the beginning to the end of each crisis with positive changes in a country's democratic institutions indicating reinforcing democracy.

#### *Reinforcing democracy*

This measure was created in two parts using the Polity IV measure of democracy which ranges from zero to ten, with higher scores indicating more democratic institutions. First, the change in a country's democracy level at the start of the crisis was subtracted from a country's democracy level at the end of the crisis.<sup>16</sup> Next, a binary variable was coded as 1 if a country had a positive change toward democracy (0, otherwise).

The results, presented in Table 7, indicate that we can reject the null hypothesis that

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<sup>16</sup>There were five cases in our data set where the democracy score was coded by as -88 in the Polity IV data set. This indicates that a country's polity is in a transition period. A country was determined to be in a period of transition in the year of demise and thus we interpreted this score as a zero on the democracy scale.

there is no relationship between learning and positive changes (reinforcing) in democracy and conclude that there is a statistical relationship between learning and positive changes in a country's democracy score. In cases where learning did not occur we did not, on average, find evidence of a positive change in a country's democratic institutions. In contrast, in cases where learning did occur we find evidence of positive changes in a country's democratic institutions.

(Table 7 about here.)

## Conclusion

In this paper, we studied how elites can reinforce democracy by focusing on bargaining during crises in twelve countries. We built a bargaining model based on crises in Italy and then tested the model in crises experienced by eleven other countries (India, Mali, Portugal, Brazil, Bolivia, Ecuador, the Philippines, Indonesia, Myanmar, Ivory Coast, and Zaire). We found a statistical relationship between learning and crisis resolution, such that when learning occurs crises were more likely to be resolved than crises where learning did not occur. We also found that in cases where learning took place more democratic institutions were likely to be in place at the end of a crisis than at the beginning.

Crises were resolved if the government revised its offers as they updated their information regarding the types of opponents with whom they were bargaining. The Indira Gandhi crisis in India is an example of actors learning to cooperate: the government initially refused to make concessions yet eventually agreed to increase its offer and the crisis was resolved. In the Aung San Suu Kyi crisis in Myanmar, the actors did not learn to cooperate but instead moved closer to their own ideal points – and the crisis was not resolved.

By expanding our research, we hope to address several questions that emerged from this paper. In the future, we will extend this work, in two ways. First, we will study more directly the effect of actors' behavior during crises on democratic consolidation. Second, we

will see whether actors learn not only within a crisis but also across series of crises: whether actors' behavior in previous crises influences them to resolve subsequent ones.

Regarding modeling issues, we will look at a two-sided incomplete information game to identify the conditions under which both actors learn to reinforce democracy. Also, we plan to relax the unitary actor assumption to capture within-group dynamics. Regarding measurement issues, we are currently coding the type of offers made by the government and opposition during each crisis and are considering rigorous ways to measure actors' reservation prices and ideal points, such as by using actors' preferences and constraints. Also, we are considering how to capture empirically the concept of patience, since the model suggests that crises are resolved when actors are sufficiently patient. In terms of testing, we are contemplating more appropriate statistical analysis of our hypothesis which will capture the strategic interaction inherent in the bargaining process. Finally, regarding questions on reinforcing democracy and crisis resolution, we will look at how actors behave in severe crises and in countries that are or become autocratic to capture a fuller understanding of how elite interaction during crises can reinforce or undermine democracy.

## Appendix

In this appendix we present the proof of proposition one.

- (*Opposition's strategy*) In the first period if  $R$  is type  $R_L$  accept an offer  $1 - b_1$  if and only if  $1 - b_1 \geq R_L$ . If  $R$  is type  $R_H$  then reject  $1 - b_1$  if  $R_L \leq 1 - b_1 < R_H$ , but accept  $1 - b_2$  in the second period if and only if  $1 - b_2 \geq R_H$ .
- (*Government's strategy*) In the first period makes an offer  $1 - b_1 = R_L$  which is acceptable to  $R_L$  but which is unacceptable to  $R_H$ . If the first period offer is rejected, then make a second period offer  $1 - b_2 = R_H$  which is acceptable to  $R_H$ .

**Proposition 1.** *The strategies for the government and opposition outlined above and the two conditions presented below form a Bayesian Nash Equilibrium if  $1 - b_1 = 1 - b_1^* = R_L$  and  $1 - b_2 = 1 - b_2^* = R_H$ .*

*Condition 1.* Let  $\delta = 1$  if  $R$  is type  $R_H$  and  $\delta < 1$  if  $R$  is type  $R_L$ . This condition states that an opposition with a low reservation value is unwilling to suffer the costs of delay while an opposition with a high reservation value is willing to suffer costs in order to obtain a better settlement. In the first period  $R$  accepts  $1 - b_1$  if  $1 - b_1 \geq R_L$ . If  $R$  rejects this offer and accepts  $G$ 's second offer then  $R$  receives a payoff of  $\delta(1 - b_2)$ . Since for  $R_L$ ,  $1 - b_1 \geq R_L > \delta(1 - b_2)$ ,  $R_L$  will accept  $G$ 's offer if and only if  $1 - b_1 > \delta(1 - b_2)$ . In the second period  $R$  accepts  $1 - b_2$  if  $1 - b_2 \geq R_H$ . If  $R$  rejects this offer then  $R$  receives a payoff of zero. Since, for  $R_H$ ,  $1 - b_2 \geq R_H > 0$ ,  $R$  will accept  $G$ 's offer if and only if  $1 - b_2 \geq R_H$ .

*Condition 2.* In order to  $G$  to make a first period offer that at least one type of  $R$  will reject then for  $G$ :  $1 - b_2 < \alpha(\delta(1 - b_2)) + (1 - \alpha)(1 - b_1)$ . Thus,  $G$  prefers taking the risk of ending up with a payoff of zero to making a first period offer which both types will accept but could force  $G$  to make a higher offer than was necessary to  $R$  to accept.

*Proof.*  $G$  can make three types of offers. First,  $G$  can offer  $1 - b$  such that  $1 - b < R_L < R_H$ . This offer will be rejected by both  $R_L$  and  $R_H$ , leaving  $G$  with a payoff of zero. Since  $G$  can obtain a higher payoff by making an offer that at least one type of  $R$  will accept then  $G$  is

better off not making this offer. Second,  $G$  can offer  $1 - b$  such that  $R_L < R_H < 1 - b$ . This offer will be accepted by both  $R_L$  and  $R_H$ . However, in this case, if  $G$  is facing  $R_L$  then  $G$  has offered more than was necessary for  $R_L$  to accept an agreement. Third,  $G$  can offer  $1 - b$  such that  $R_L < 1 - b < R_H$ . This offer will be accepted by  $R_L$  but rejected  $R_H$ . This offer allows  $G$  to screen her opponent by making a lower first period offer which is acceptable to  $R_L$  but rejected by  $R_H$ . Following this rejection,  $G$  updates her beliefs about the type she is facing and makes a second period offer which is acceptable to  $R_H$ .  $G$ 's optimal first period offer is  $1 - b_1^* = R_L$  and  $G$ 's optimal second period offer is  $1 - b_2^* = R_H$ .

If  $G$  makes an offer which is accepted by both  $R_L$  and  $R_H$ , then  $G$ 's posterior beliefs about which type it was facing remain unchanged. Similarly, if  $G$  makes an offer which is rejected by both  $R_L$  and  $R_H$ , then  $G$ 's posterior beliefs about which type it was facing remain unchanged. However, suppose that  $G$  makes a first period offer which is rejected by  $R$ . If there is an incentive for  $R_L$  and  $R_H$  to pursue separate strategies then a rejection should make  $G$  more optimistic about the probability of facing  $R_H$  following a rejection of  $G$ 's first-period offer. Since  $G$ 's first period offer is one that is accepted by  $R_L$  but rejected by  $R_H$  then following this rejection  $G$  updates its beliefs about the probability it is facing  $R_H$  using Bayes' rule.  $G$ 's posterior belief that it is facing  $R_H$  is:

$$P(R_H | \sim A) = \frac{P(R_H)P(\sim A | R_H)}{P(R_H)P(\sim A | R_H) + P(R_L)P(\sim A | R_L)}$$

$$P(R_H | \sim A) = \frac{\alpha(1)}{\alpha(1) + (1-\alpha)0}$$

$$P(R_H | \sim A) = \frac{\alpha}{\alpha}$$

$$P(R_H | \sim A) = 1$$

By making a first period offer,  $1 - b_1^* = R_L$  which is accepted by  $R_L$  but is rejected by  $R_H$ ,  $G$  provides an incentive for the two types of  $R$  to pursue separate strategies. Thus, following a first period rejection,  $G$ 's posterior belief that it is facing  $R_H = 1$ . Since  $G$  knows with certainty who it is facing and she can make a second period offer  $1 - b_2^* = R_H$  which is accepted by  $R_H$ . This strategy allows  $G$  to find an agreement which will be accepted but which avoids giving away too much to its opponent.



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Table 1: Italy (Terrorism Series)

Terrorism	Government (Christian Democrats)	Terrorist Groups
Preferences	<ol style="list-style-type: none"> <li>1. Status quo.</li> <li>2. Terrorist groups overthrow the state.</li> </ol>	<ol style="list-style-type: none"> <li>1. Overthrow of the state.</li> <li>2. Status quo.</li> </ol>
Constraints	<ol style="list-style-type: none"> <li>1. Until it changed the laws in 1975, the government was more restricted in its ability to act against terrorists.</li> <li>2. Some of the anti-terrorist officials were sympathetic to the terrorist groups.</li> </ol>	<ol style="list-style-type: none"> <li>1. Terrorism is illegal.</li> </ol>

Table 2: Italy (Corruption Series)

Corruption	Supporters of the Clean Hands Investigation (Magistrates and Legislators)	Opponents of the Clean Hands Investigation (Legislators)
Preferences	1. Introduce transparency into the political system. 2. Corruption continues.	1. Corruption continues.  2. Introduce transparency into the political system.
Constraints	1. Lack of information regarding the participants of corruption due to its secret nature. 2. Development of the party system contributed to the emergence of clientelism.	1. Corruption is illegal.  2. New legislation in 1989 enhanced the criminal code and provided for stricter legal constraints against corrupt politicians.



Table 3: Italy (Northern League Series)

Northern League	Government (Berlusconi)	Northern League
Preferences	<ol style="list-style-type: none"> <li>1. Status quo: retain legal authority over the entire territory.</li> <li>2. Make some concessions to the Northern League (such as meeting economic demands).</li> <li>3. Grant independence to the Northern region.</li> </ol>	<ol style="list-style-type: none"> <li>1. Establish an independent state in the Northern region.</li> <li>2. Gain some concessions from the government (such as meeting economic demands).</li> <li>3. Accept the status quo.</li> </ol>
Constraints	<ol style="list-style-type: none"> <li>1. International systemic factors increased the importance of Northern Italy.</li> </ol>	<ol style="list-style-type: none"> <li>1. The Italian legal framework did not allow for the degree of autonomy sought by the Northern League.</li> <li>2. Organizational weakness.</li> <li>3. Negative public image.</li> </ol>

Table 4: India (Indira Gandhi Series)

Indira Gandhi	Government (Indira Gandhi)	Opposition parties
Preferences	<ol style="list-style-type: none"> <li>1. Remain in office.</li> <li>2. Leave office.</li> </ol>	<ol style="list-style-type: none"> <li>1. Force Indira Gandhi out of office.</li> <li>2. Gandhi remains in office.</li> </ol>
Constraints	<ol style="list-style-type: none"> <li>1. Indira Gandhi's election was declared null and void for breaking campaign laws.</li> </ol>	<ol style="list-style-type: none"> <li>1. Restrictive legal framework, which gave power to the government to arrest opposition members.</li> </ol>

Table 5: Myanmar (Aung San Suu Kyi Series)

Aung San Suu Kyi	Government (Military Regime)	Opposition (NLD)
Preferences	<ol style="list-style-type: none"> <li>1. No concessions for opposition.</li> <li>2. Minor concessions to opposition.</li> <li>3. Major concessions to opposition -allow them to hold a shadow parliament and draft a revised constitution.</li> <li>4. Restoration of democracy.</li> </ol>	<ol style="list-style-type: none"> <li>1. Restoration of democracy.</li> <li>2. Major concessions to opposition -allow them to hold a shadow parliament and draft a revised constitution.</li> <li>3. Minor concessions to opposition.</li> <li>4. No concessions for opposition.</li> </ol>
Constraints	<ol style="list-style-type: none"> <li>1. International pressure</li> </ol>	<ol style="list-style-type: none"> <li>1. Most of the opposition's leaders were jailed.</li> <li>2. The military regime refused to allow the opposition to hold meetings.</li> </ol>

Table 6: Statistical Test of Learning and Crisis Resolution

<b>Learning</b>				
		No	Yes	Total
	No	14	7	21
<b>Crisis Resolved</b>	Yes	6	12	18
	Total	20	19	39
Pearson $\chi^2(1) = 4.31$ $Pr = 0.038$				

Table 7: Statistical Test of Learning and Reinforcing Democracy

<b>Learning</b>				
		No	Yes	Total
	No	18	8	26
<b>Reinforcing Democracy</b>	Yes	2	11	13
	Total	20	19	39
Pearson $\chi^2(1) = 10.06$ $Pr = 0.002$				