We will discuss as many parts of *Games of Strategy*, Chapter 10, Exercise 9 as time permits. The choice in each precept will be governed by student interest. You should prepare to participate most actively and to lead the discussion of those topics where you have some specialized knowledge. For example, students who have taken courses in political science and international relations can focus on parts (b) and (e). Presumably everyone knows about (d). Note also that there is a long lag in the process of writing and publishing a book, and some circumstances have changed since this exercise was written several years ago. The matter of job losses is now most acute in several other industries and services, and is likely to be a prominent issue in the presidential election this year. Therefore we will interpret the question in its current context.
These questions do not always have clear or unique solutions, but theoretical analysis helps us refine the concepts and reject some naive solutions that may be offered. Here are some general ideas; our discussions will bring out others.

(a) The current members of the EMU want to achieve compellence from Britain. They can use a threat (if you don’t join, we will exclude you from important European decisions like defense) or promise (if you join, we will give you better deals in other European issues like reforming the common agricultural policy). For both kinds of moves, credibility is problematic. Britain may not believe that the others will be able to do without her in defense matters, or may believe that after she has joined, the French will renege on their promises to reform agricultural policy.

(b) The US wants to deter North Korea primarily, and also Iran, China etc secondarily. The usual strategic move for this is a threat. However, we do not have many good threats in this context. Short of a military attack, there is little we can do to hurt North Korea or Iran. With North Korea, withholding food aid will look inhuman. And the US business community has successfully argued to every US administration that economic relations with China are too important to be risked for any reason. This is a case where a “deterrent promise” may stand a better chance of success than a threat. An example would be: “Each year that North Korea refrains from exporting missiles, we will give it so much food and fuel.” Such a move needs careful monitoring and timing.

(c) In the original context, the UAW wants to deter the firms from investing abroad, and to compel the US government to restrict imports. This needs a combination of policies, for example a threat of a strike against US firms, and promises of contributions to politicians. In recent years strikes have had a very mixed record of success, and the threat may not be credible. If the threat against the firms is not credible, then knowing that, the government is also less likely to give in – why impose tariffs that would raise the cost of autos to domestic consumers if the jobs are going to be lost anyway.

In its current context, several of the affected industries, especially services, are not unionized and therefore lack even the possibility of strike-like strategies. Several other interested players join the game and complicate the issue. The Democrats want to dramatize the issue and criticize the administration for failing to solve the problem; in fact they would not want any good policy to be made this year. Many media also like the dramatic stories that the issue generates. The Bush administration wants to paint a rosier picture and would love to offer what looks like a dramatic and quick fix. The economists’ favored solution - improve the training of American labor force to upgrade its skills and make it more flexible, but let trade and investment remain open - is too long-term and undramatic for anyone else, and not good enough for those who currently lack the skills and flexibility.

(d) The students can try to achieve deterrence with threats: demonstrations, sit-ins, exposing the high salaries of the top administrators and professors, etc. The credibility of such moves will
depend on the perceived willingness of the students to bear the costs of disruption of their academic activities, possible disciplinary action etc, as well as the financial facts of the situation and the attitude of the administration and the trustees.

(e) This is a question of sustaining mutual promises. The usual approach is to break up the deal into a succession of small steps, such that the prospect of future benefits keeps each side willing to adhere to the promises of good behavior it has made so far. Eventually this can become problematic as the end-game approaches. The cooperative equilibrium can last if even a small defection (reneging on the last step promised) will unravel the whole deal. Given the possibility of errors, it is too costly to build in a certainty of such collapse into the deal, but creating a risk (brinkmanship) may work. Another possibility is for an interested third party to promise some reward to the two main parties; for example the US promised economic aid to Egypt and Israel during the Camp David negotiations in 1978.