
The Anarchy of the Deal: The Sudden Downfall of Two-Level Game Theory from Camp David to ‘The Deal of the Century’

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Abstract:

This paper stresses the importance of Two-Level Game Theory in the context of Israeli-Palestinian peace deals. By comparing the attitudes of political and domestic climate around Camp David Summit and the Deal of the Century, the paper combs through the differences between the two deals and the circumstances of their failure. By examining the use of Two-Level Game Theory at Camp David and its subsequent loss of validity after the deal's failure, the paper provides context for why present-day even handed peace deals between Israel and Palestine are virtually nonexistent.

Keywords: Two-level game theory, Camp David, Deal of the Century, Israel, Palestine, peace agreements, two-state solution, Palestine Liberation Organization

Introduction

In the present political climate, the topic of a potential Israeli-Palestinian (IP) peace agreement is met with political apathy from the general population and the educated spheres. Peace agreements between Israel and Palestine, however, were not always this elusive. The 1990s and 2000s were marked by the general population's support for peace. Unfortunately, the 2000 Camp David Summit is now known to be the last even-handed deal in IP history. While this plan was not without flaws – as will be elaborated upon later in this paper – it acknowledged significant issues on both sides and put forth a substantial blueprint for a two-state solution. The plan was ultimately rejected and was followed by the Second Intifada. This subsequent period of violence entrenched more militant, reactionary forces in both the Palestinian and Israeli political camps, effectively extinguishing the prospects for non-partisan peace agreements.

Two decades later, when the Trump administration unveiled the “Deal of the Century” (DofC), it diverged significantly from prior agreements. It proposed an intense demilitarization of the Palestinian Authority (PA) and militant groups and a highway system that would connect Gaza with a small portion of the West Bank. This proposal neglected the lessons learned from its predecessors and did not reflect contemporary Palestinian concerns, ignoring any semblance of a Two-state solution or Palestinian autonomy. Instead, it focused primarily on economic interests and a semi-state strategy catering just to right-wing Zionist groups. As it was only created to fit into broader Arab relations and ignored the wants of Palestinians, it was seen as an insult to Palestinian nationalism, and the Palestinian Authority (PA) consequently refused to join the table.

The failure of these later peace offers can be explained through the absence of tensions necessary for successful agreements, as described in Two-Level Game Theory. On level one are the political leaders and elite representatives who are situated at the forefront of

the negotiation process, propagating their own ideas and agenda. They are constrained by the second level, which encompasses the economic and cultural concerns of the domestic population. Fear of collapse is the driving force for compromise, as the domestic repercussions of being unsuccessful push the elites to settle for deals that only partially align with their original objectives (Putnam 1988, 427-60).

This paper will begin by examining the changing motivations and significant differences between the Camp David Summit and the “Deal of the Century,” as well as the reasons for their failings. It will then explain how the collapse of Camp David and subsequent events in the 2000s-2010s fostered a climate of distrust, unsupportive leadership, and public skepticism regarding potential peace resolutions. Finally, this paper will present its overarching argument that the departure from the domestic and international forces highlighted in Two-Level Game Theory created an environment where negotiators do not fear failure but rather view it as inevitable, hindering the potential for a successful peace settlement.

Camp David Summit: The End of the Road

The 2000 Camp David Summit was one of the last Israeli-Palestinian agreements that had both international and domestic alignment. Leaders Yassir Arafat, Bill Clinton, and Ehud Barak each had their own respective incentives to ensure that the Camp David Summit amounted to positive outcomes. Expectations were high, with its potential underscored by Saudi Prince Bandar's admonition to Arafat, stating, "If we lose this opportunity, it is not to be a tragedy; this is going to be a crime" (Aizenberg, 2023). The Oslo Accords had set the stage for a final agreement, yet people were unsure when it would come. By 2000, Bill Clinton and Israel's Prime Minister, Ehud Barak, were each nearing the end of their respective terms and were desperate for an agreement that would solidify their presidential

legacies. Clinton deemed the summit a “Hail Mary pass,” a dire last-ditch effort to resolve the conflict once and for all (Harris, 2023). Barak had far more at stake with this agreement; not only was there an election coming up in 2001, but Barak was also being investigated for illegal campaign financing and was eager for a positive outcome. The leader of the Palestinian Liberation Organization (PLO), Yassir Arafat, was also in a unique position; he needed to regain his diminished public influence after he and the PLO had been exiled to Tunisia (Sher, 2006). Moreover, polling at the time showed that 70% of Palestinians reported a desire for a proper peace agreement, and as the main source of Palestinian representation, Arafat had the power to fulfill this role (Sher, 2006). On the Israeli side, 63% of citizens were optimistic about peace being achieved soon (Sher, 2006). Both of these actors could gain diplomatic prominence and favour from the domestic population if they succeeded. In Two-Level Game theory, this allows actors to propel the desired goals of the public. Public optimism allows the actors to have a more fully constructed deal. These are all preconditions that are needed for active negotiations.

The summit was short-lived, lasting from July 11-25th, but managed to cover essential topics. The negotiations considered a moving group of win-sets¹, as demonstrated by the many adjustments to the plan over the course of the talks. The proposed agreement entailed the creation of a Palestinian state in Gaza, and forfeiting approximately 82–88% of the West Bank, which was later increased to around 92% of the West Bank (Slater 2001, 180). Israel largely acknowledged the pre-1967 borders, with exceptions made for the parts of Jerusalem containing Jewish holy sites, aqueducts, and Jewish settlements. Notably, the majority of existing water aquifers that fell within the remaining 6–8% of the West Bank would be annexed by Israel (Slater 2001).

¹ Win-sets refer to the range of outcomes acceptable to both parties involved, where each perceives a satisfactory level of gain relative to their initial preferences.

Additionally, Israeli forces would maintain control over the borders of Palestine, and a Palestinian plan to demilitarize would be required. Regarding the refugee issue, the Barak administration refused to assume full responsibility for all the displaced Palestinians. Instead, Barak proposed a family reunification program, which would allow approximately 10,000 refugees to return to Israel. In summary, the Camp David Summit demonstrated that reasonable concessions from both sides could yield a framework addressing Israel's security and heritage concerns while granting Palestinians the right to self-determination in an independent state, highlighting the potential for balanced and mutually beneficial outcomes (Slater 2001, 181).

Why it Failed

Despite the compromises made, Arafat decided to withdraw, ultimately rejecting the final proposal and refusing to continue negotiations. Arafat gave minimal leeway in many areas of contention during the summit, including issues of the Right of Return, Jerusalem, and land governance. For instance, at the time of the negotiations, millions of Palestinians had been displaced, yet only a fraction had settled permanently in other countries and received full citizenship elsewhere. A primary Palestinian demand was the Right of Return for all those presently living in refugee camps and elsewhere. Granting this privilege to only 3% of the population was thus seen by Arafat as unacceptable, as it would be abandoning and betraying his fellow Palestinians. Regarding the issues of water, displacement of Arab Israelis, and the partitioning of Jerusalem, Arafat did not trust that the other parties were giving him a deal that would allow Palestine to succeed long-term (Slater 2001, 182). The demilitarization of Palestine would leave parts of the West Bank surrounded by the Israeli military and disconnected from East Jerusalem (Rasler 2000, 705). Individuals defending Arafat's decision to walk from the deal argue that the PLO would never achieve its goals due to Israel and the United States' powerful alliance. Critics of Arafat, however, claim that it

was his decision not to engage in the Summit that set the tone for the conference, deviating from the established give-and-take negotiation framework and ultimately preventing equitable compromise. Clinton would later describe Arafat as having “said no to everything” (Agha et al., 2015). Ultimately, he did not look for a compromise or middle ground and walked away from the deal with no win-sets achieved. Arafat’s total rejection was generally seen as a tremendous mistake that irreparably worsened the Palestinian condition and warded off negotiations in the future.

Consequences of the Camp David Failure: The Second Intifada

Arafat’s refusal to pursue negotiations and his subsequent abandonment of the deal marked a turning point in the dynamics of the 2000s. The Second Intifada, which broke out in 2000 after the Camp David Accords failed, calcified the issues further for a peace agreement from both political leaders and the general populace. This Intifada failed to achieve the same level of global acclaim as its predecessor but still managed to deal a severe blow to any prospects of peace through negotiation. The first Intifada’s focus on boycott, divestment, and protest was successful in swaying international and national opinion. Even for Israelis, the percentage of those willing to return territories increased from 43 percent in 1986 to 60 percent in 1993 (Miskel 2004, 50). Plus, the PLO gained mass international support, which paved the way for the Oslo Accords. It was not completely unrealistic for the PLO to assume a second Intifada could create the same kind of meaningful change brought about by the first Intifada. Ironically, peace negotiations lost much of their former significance, contributing to a loss of legitimacy and effectiveness in Two-Level Game Theory strategies.

Arafat's support of the Intifada should not be misunderstood as his original intention in ending peace talks. As Alan Dowty explains, the PA had to find a way to channel the

growing anger and frustration of the population away from itself into a more ‘useful direction,’ especially since the PLO, while in exile, was removed from Palestinian day-to-day life (Miskel 2004, 51). The resulting explosion was the Second Intifada. Unlike the Intifada of 1987, the targets of the second were indiscriminate. Violent attacks occurred in buses, pizza parlours, and malls, killing mostly civilians, including the elderly, children, and women (Dowty 2004, 14). The economic and social repercussions were hard on Israel but devastating for the Palestinians. The Israeli response of harsher checkpoints, collective punishment, and house demolitions inflicted considerable hardship on the Palestinian economy. Already grappling with widespread poverty, the Palestinian population saw personal incomes plummet by more than 30 percent in the aftermath of the conflict. Per capita GDP experienced a staggering decline of nearly 40 percent by 2002, as trade was disrupted, movement was restricted, and critical infrastructure was decimated, leaving many Palestinians with limited access to resources or opportunities for recovery (Dowty 2004, 14). Most importantly for our focus, it dealt a severe, if not fatal, blow to any prospect of peace as the domestic population was deeply resentful of Israel and its elites, maiming the second level of Game Theory.

Politically, it inextricably altered the landscape. The overwhelming force employed by Israel fragmented the once-unified Palestinian authorities, leading to a shift towards more localized governance structures². Furthermore, the addition of Gaza as a distinct entity presented new challenges for the envisioned two-state solution, as now two separate governments would need to be dealt with. The interconnected nature of the territories raised questions about how such a solution could be effectively implemented, particularly given the internal divisions within the Palestinian leadership. Additionally, the PA and the Fatah leadership were seen as corrupt by Palestinian civilians and no longer representative

² A direct reason for why it is so hard to create a cohesive Palestinian government today

of a large portion of the population. Extreme ideological groups promoting violence against Israel, such as Hamas and the Palestinian Islamic Jihad, grew in popularity and prominence (Dowty 2004, 15).

In Israel, the military's aggressive response found strong support among voters, fueling the rise of right-wing ideology and culminating in Ariel Sharon's decisive victory in the 2001 election against Ehud Barak. Sharon, once considered too radical to win, secured 62.4 percent of the vote, reflecting a significant political shift. This shift expanded the Overton window to favour right-wing religious expansionism (Dowty 2004, 24). The success of these right-wing coalitions in the Knesset laid the groundwork for leaders like Benjamin Netanyahu, further deepening skepticism and pessimism about the prospects for peace. In essence, it shifted the Overton window to right-wing religious expansionism. These right-wing victories in the Knesset set the stage for subsequent leaders, including current PM Benjamin Netanyahu, to further entrench a pattern of pessimism regarding prospects for peace. These new government coalition partners also added 'religious rights' into their justifications for the continued building of settlements in the West Bank, settler vigilantism and harsh military checkpoints (Dowty 2004, 24). From a Two-Level Game Theory perspective, this new political landscape disrupted the delicate balance between domestic and international pressures required for effective negotiation. Domestically, Israeli leadership no longer had public support or a unified constituency willing to accept the compromises necessary for peace. Internationally, the hardline stance of right-wing coalitions, such as the Likud party partnering with Otzma Yehudit, left little room for meaningful concessions that could align with Palestinian demands (Inskeep, 2022). The absence of win-sets—acceptable outcomes for both domestic and international audiences—meant that negotiators lacked the leverage and incentives needed to foster cooperation. Without these key components, the framework of the Two-Level Game

Theory ceased to function, entrenching the deadlock in Israeli-Palestinian relations (Dowty 2004, 24).

Kicking What is Already Down: The Trump Plans

The Trump Administration proposed two unprecedented plans regarding Israeli affairs, marking a new era for IP negotiations. The first deal, the DofC, attempted to create a “realistic Two-State Solution that [resolved] the risk of Palestinian statehood to Israel’s security” (Miskel 2004, 48). This deal, however, did not acknowledge the 1967 borders, did not address the Right of Return for Palestinians, and did not allow for a substantial and immediate Palestinian state. Instead, it offered Palestinian statehood only in small pockets of the West Bank and Gaza, with Israeli military control and oversight during the transition. Moreover, only if the Israeli government deemed the PA stabilized would they then be granted \$50 billion dollars of investment toward infrastructure and Palestinian enterprises (Ajrami 2020, 2). Unsurprisingly, both the PA and Hamas swiftly rejected this offer and refused to engage in negotiations. Three years later came the second proposal of the Trump administration: the Abraham Accords. This came to fruition by expanding Israeli-Arab relations, specifically with Bahrain, the United Arab Emirates, Morocco, and Sudan. These accords aimed to normalize diplomatic, economic, and cultural relations between Israel and its Arab neighbours. This marked a significant shift in the geopolitical landscape of the Middle East, as Palestine was notably excluded from the agreement³. The accords were promoted as a breakthrough for peace and stability in the region. They fostered cooperation on various fronts, including trade, tourism, and technology (Yaldin 2020, 2). Essentially, these two deals edged the Palestinian question backward on two fronts, as it gave them a poor deal with the underlying premise that ‘this is the best they will get,’ while also

³ There were more factors at play when considering these two deals, such as Arab countries that already have good relations with Israel, Iran and even the American Zionist push that was a big factor for the deal existing as it does.

establishing relations with Arab countries who had once refused to negotiate with Israel due to its displacement and oppression of Palestinians (Yaldin 2020, 3-4).

Trump's plan marked an important turning point in diplomacy. Two-level Game Theory understands negotiations as a selection of win-sets that change as negotiations continue. Leaders must manage the interplay between domestic constraints and international opportunities, as the two have necessary impacts on one another. Just as international relations are influenced by domestic politics, such events also impart change to the domestic realm. However, because there is now an expectation of a failing deal, Trump made deals that are purposefully untenable, as there is no incentive to create a legitimate platform for this conflict. Domestic politics can influence a state's bargaining position in international negotiations, while international agreements or conflicts can shape domestic political dynamics (Putnam 1988, 435). Overall, leaders must act rationally to synthesize the balance of competing wants. After the events of the 2000s, there was a shift that acknowledged that Two-level Game Theory was no longer applicable, meaning that states in power have no reason or want to try to find a balance in this conflict. These new deals can now effectively ignore the Palestinians because the domestic and international weights no longer exist for Israel and the U.S.

On the domestic level, both the Israeli and Palestinian population no longer trust their leaders or each other (PCPSR 2023). The PA leader, Mahmoud Abbas, was not invited to the negotiation table during the Abraham Accords because there was already the assumption that he would not accept any plan. Even if he did, Abbas did not have the public unity and support that Arafat had. 2020 polls found that nearly 80% of Palestinians wanted Abbas to resign (PCSPR 2023). Even if he did agree to a deal, assuming that Hamas also agreed, the Palestinian people would not be swayed by his status. Similarly, Israeli leader Netanyahu has numerous fraud and corruption charges against him and managed to stay in power through

the use of coalitions rather than broad support. Netanyahu, meanwhile, was dogged by allegations of corruption dating back to 2019, with Israeli prosecutors formally submitting a list of charges on the same day that he stood alongside Trump in the White House announcing the DoF (Lipner 2020, 3-5). His political survival has been tied closely to championing far-right, expansionist Zionist policies, which have helped him maintain support among hardline constituencies despite widespread criticism. However, following the Gaza war, public trust in his leadership has eroded significantly, with only 15% of Israelis wanting him to remain in office (Straits Times, 2024). Most importantly, the domestic population has been slowly desensitized to failing negotiations with Palestine, emphasizing the need for a new approach to managing Israeli-Arab negotiations. When both sides are led by corrupt leadership and trust is absent—not only in their leaders but also in their adversaries—there is little incentive to pursue, let alone achieve, a balanced and equitable deal. As a result, Game Theory loses its power for future Israeli-Palestinian negotiations, making it unlikely that democratic processes will facilitate a meaningful shift or rebalancing of power.

Conclusion

The failure of Israeli-Palestinian peace negotiations reflects the breakdown of the Two-Level Game Theory in IP. At the first level, leadership on both sides has been polluted by corruption, distrust, and self-serving agendas, leaving no figures with the credibility or vision to champion meaningful peace. On the second level, disillusionment and polarization among the domestic population have eroded public support for renewed negotiations. This lack of grassroots pressure has made it easy for leaders to avoid difficult compromises, shrinking the range of win-sets to virtually nothing. The combination of unaccountable leadership and a disheartened public creates a vicious cycle: without trust or credible options, there is no incentive to pursue peace, which reinforces a lack of accountable leadership. Since

Camp David, every president has loosely and haphazardly tried to make some point of peace. However, nothing has been remotely close to the agreements of the 90s and 2000s. The mechanisms that make Two-Level Game Theory effective have unravelled. This collapse explains why the hope and ambition that once fueled efforts like the Camp David Summit have faded, leaving the region locked in a stalemate. Now, the lack of Palestinian trust in the American peacemaking process has increased to 84%.³⁰ According to Gallup polling, as of 2023, only 7% of Israelis believe that terrorism will cease with a two-state solution, and only 25% of Israelis support an independent Palestine.³¹ 24% of Palestinians support a two-state solution.³² Accepting failure acts as a self-fulfilling prophecy. There is no longer any shame in failure, and the group most affected by this is the Palestinians, who are unlikely to see fair agreements until there is a strong grassroots push for peace through clear and practical efforts. Looking at the present-day condition of the conflict leads one to question what might have happened if those levers had been used before it was too late.

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